Annual report for the SDFI and Petoro 2020:

petoro

The Norwegian state has large holdings in oil and gas licences on Norway's continental shelf (NCS) through the State's Direct Financial Interest (SDFI). These are managed by Petoro AS. The company's most important job is to help ensure the highest possible value creation from the SDFI – value which benefits the whole of Norway.

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President and CEO's letter and Directors' report

Johan Sverdrup. Photo: Equinor


Kjell Morisbak Lund. Photo: Elisabeth Tønnessen

An unusual year - but still solid revenues from SDFI

2020 has been a historically challenging year. Virtually the entire global community has been affected by the Covid-19 pandemic, which is something we've never experienced before in a globalised world. This has crippled entirely essential social structures that we take for granted in a modern society, particularly as regards everything surrounding human mobility. Despite different countries taking different approaches to handling the pandemic, the international community was able to stake out a course through infection and shutdowns, and thereby managed to maintain critical functions. Good emergency preparedness has also helped maintain key infrastructure, not least within energy supply.

The prices of petroleum products declined dramatically in the first half of 2020, which was primarily caused by a powerful demand shock as a result of the pandemic. We experienced something as dramatic as negative prices for oil, which shook our industry to the core. In an effort to stabilise the global market, OPEC introduced production cuts for their member states. In Norway, the Government followed up OPEC's initiative by introducing production restrictions for a number of fields on the Norwegian shelf. Overall, this helped prices stabilise in the autumn at a somewhat higher level, and revenues therefore increased toward the end of the year. Gas prices in Europe also rose significantly at the end of the year, which contributes to a good start to 2021. However, the substantial changes in demand will most likely continue to loom large in the upcoming years, and the International Energy Agency (IEA) projects that demand will not return to pre-Covid-19 levels until 2023 at the earliest.

From Petoro's perspective, it's encouraging to see that, even in an economic downturn, the SDFI portfolio can contribute considerable revenues for Norway. Revenue from the SDFI in 2020 is estimated at as much as 50 per cent of the state's overall revenues from the petroleum industry, and the results show that the portfolio is resilient in the face of low prices in the oil and gas markets. Compared with a normal year, this emphasises the significance of revenue from the state's ownership interests for the Norwegian economy, and the competitiveness compared with other oil and gas-producing provinces.

Last April, the Government presented an extensive stimulus package in order to maintain activity in the oil and gas industry, not least by securing access to assignments for a supplier industry under considerable pressure. This goal-oriented measure has provided considerable incentives to realise additional projects on the Norwegian shelf, many of which in the SDFI portfolio. In sum, this helps maintain a high level of production for many years to come, with the substantial significance this will have for the Norwegian economy. The investment level on the Norwegian shelf has been maintained, which shows that the stimulus package works. Petoro's mission is to contribute to maximising the value creation from these projects, while simultaneously implementing them in a safe and prudent manner.

With several new, major projects in development, it's easy to forget that existing fields in the portfolio represent substantial values, considerably greater than the new projects. Further development efforts are under way on the vast majority of these so-called mature fields in our portfolio, of which Snorre is one of the fields that started up new production in 2020. A subsea development is now on stream on this field, representing the largest improved recovery project on the Norwegian shelf, and providing additional reserves of the magnitude of the Goliat field. According to the original plans, the Snorre field would have already been shut down, but following a significant effort over a number of years, with major contributions from Petoro, Snorre's lifetime has been extended by 25 years. Several fields in the SDFI portfolio have good potential for further development.

2020 was the first full production year for the giant Johan Sverdrup field, whose production has far exceeded expectations from day one with impressively stable production. At the same time, innovative digital solutions are contributing to safer operations and greater profitability. Production capacity is expected to increase from 500,000 to 600,000 barrels per day, which is 100,000 barrels more than what was presumed at start-up. Since we can also demonstrate that Johan Sverdrup is one of our fields with very low greenhouse gas emissions, this illustrates our ability to be both improvement-oriented and future-oriented.

Petoro's vision is to be a driving force on the Norwegian shelf, where an important part of our work is aimed at contributing to industrial improvements that benefit the entire portfolio. This is reflected in our strategy, which is derived from the task of contributing to a high level of safety, sustainable solutions and the highest possible value creation. Results in 2020 have shown that the potential for improvements in the portfolio is still considerable, be it the unacceptable development in the number of serious safety incidents, the scope of greenhouse gas emissions from our activities and productivity in our core processes, such as drilling and reservoir analyses.

As the second-largest licensee on the Norwegian shelf, Petoro is uniquely suited to influence developments in all of these areas. One common denominator for improvement is utilising digital solutions, and Petoro has been a vocal advocate for this over several years. We've particularly focused on creating a momentum for improvement, building the understanding that work processes do not change by themselves, and also prioritising the sharing of more data. We've also targeted our efforts toward developing next-generation work processes within reservoir management.

5,000 wells in 50 years

Last year's drilling activity reached a high level with 180 drilled wells, including well number 5,000 on the Norwegian shelf, drilled by ConocoPhillips on Eldfisk. In order to realise the expected reserves in existing fields, more than 1,000 new wells will have to be drilled in the SDFI portfolio alone. Drilling efficiency is important in a situation where we're working against the clock.

HSE

Petoro has an important task in ensuring that the operators handle safety in the portfolio in a sound manner, the so-called supervisory duty. Once again, the serious safety incidents in 2020 are prescient reminders that we're part of an industry with safety risks which it must continuously strive to reduce to a minimum. We're not where we need to be, and Petoro will remain an active partner in the licenses to contribute what we can to follow up the expectation of zero harm to people, materials and the environment, and to support the direction set by both the Petroleum Safety Authority and the operators.

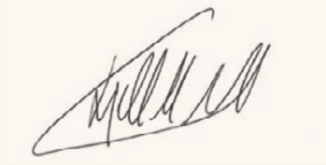
Climate

In 2020, the Norwegian oil and gas industry presented a roadmap to reduce greenhouse gas emissions by 40% by 2030. The pricing of CO_2 emissions has proven to be a good policy instrument and has contributed to relatively low emissions on the Norwegian shelf compared with other regions. Efforts to mature a number of measures to reduce emissions have been taking place over the last few years. The Government's recently presented Climate White Paper, which proposes an incremental increase of the overall CO_2 price, will further contribute to achieving these targets, but will also lead to expectations for further reductions. Such an approach, which provides predictability for the companies, will help simplify decision-making processes concerning climate measures.

Since its founding in 2001, one of Petoro's stated goals has been to contribute to sustainable development. We work continuously in the licences to secure good, climate-efficient projects. Electrification of the installations is unquestionably the largest and most important contribution to cutting emissions from production, and thereby cut greenhouse gas emissions in Norway. At the same time, we're exploring possibilities to develop entirely emission-free value chains. This will be decisive in order to deliver zero-emission gas from the production segment which, over time, will make it possible to convert natural gas to other low-carbon products. This presumes access to carbon capture and storage, which is now a major focus area, e.g. through the Longship project. Low-carbon products such as hydrogen and ammonia, as well as technology development within carbon capture and storage will be important tools in decarbonising heavy industrial sectors such as transport, aviation and shipping.

Petoro has invested about NOK 20 billion annually in projects in recent years. When we make an investment decision, it is crucial to ensure that climate risk is handled appropriately. We do this by ensuring that greenhouse gas emissions and associated costs and expectations regarding the future demand for oil and gas are included in the decision-making basis for the investments.

Our energy resources play an important role for the security of energy supplies to Europe, particularly within industry and transport. Realisation of our energy resources is contingent on profitability. This requires a sustained focus on technology development and research to ensure that we remain a crucial piece of the puzzle in developing the low-carbon society.



Kjell Morisbak Lund
Acting CEO, Petoro AS

Directors’ report 2020

Petoro manages the State’s Direct Financial Interest (SDFI), which represents about one-third of Norway’s overall oil and gas reserves. The company’s objective is to create the greatest possible value and achieve the highest possible revenue for the State from SDFI.

The SDFI scheme was established in 1985. Under this arrangement, the state participates as a direct investor in petroleum activities on the Norwegian continental shelf (NCS), so that the state receives revenues and incurs expenses associated with SDFI’s ownership interests. Petoro acts as licensee for the state’s ownership interests in production licences, fields, pipelines and terminals.

As SDFI manager, Petoro contributed a cash flow of NOK 59 billion in 2020, which represents an estimated 50 per cent of the state’s total revenues from the petroleum activities in 2020.

External trends

The oil and gas industry was strongly affected by the global Covid-19 pandemic in 2020. Measures to limit the spread of contagion significantly reduced global economic activity and resulted in a substantial drop in prices for oil and gas, which posed vast operational and financial challenges for the industry. Oil and gas companies on the Norwegian shelf have so far weathered the crisis well and maintained safe, stable operations throughout the year. Nevertheless, outbreaks and infection control measures have resulted in certain postponements of planned activity within development and production drilling, as well as exploration and maintenance.

The demand for oil experienced a historic drop in the second quarter of 2020. In the lead-up to this, Saudi Arabia and Russia had started a competition for market shares, which amplified the market imbalance. In order to handle the situation, OPEC and Russia agreed early on to cut their own production significantly, and several other countries, including Norway, followed suit. These cuts and eventual rise in demand helped balance the markets, which led to rising prices toward the summer and until the end of the year. The gas market was also affected by Covid-19, and in the summer of 2020 we saw the lowest gas prices of the century in both Europe and Asia. The winter of 2019-2020 was relatively mild, and global gas storage was full when the pandemic hit the global economy. The gas market eventually balanced out when the US produced less LNG, and both Norway and Russia reduced their gas deliveries to the European market. Toward the end of the year, it was particularly cold in Asia and Europe, which led to a significant increase in gas prices, particularly in Asia, where LNG prices rose to record levels.

The decline in demand for oil in the second quarter meant that many projects in the planning phase on the Norwegian shelf were put on hold and contributed to significant uncertainty associated with the future activity level and employment. The authorities’ temporary change in the petroleum tax has stimulated project maturation and activity. At the end of the year, there was a record-high number of development and electrification projects in the planning phase in the SDFI portfolio. These are projects that, overall, will contribute to increased production and considerable reductions in greenhouse gas emissions. The authorities’ stimulus package for the oil and gas industry thus also contributes to secure important activity for the supplier industry moving forward.

The industry has not succeeded in living up to the expectations of continuous improvement in safety on the Norwegian shelf during 2020. The number of serious incidents is still too high, and falling objects dominate the range of incidents. The Petroleum Safety Authority has expressed concern regarding the safety level, as well as the consequences of postponed maintenance as a result of Covid-19. The most serious incident last year was the fire on Melkøya, which also resulted in a lengthy shutdown. It is important for the industry to work together to improve safety on the shelf. This will require increased follow-up from Petoro as well.

A number of countries adopted ambitious climate targets in 2020 and laid plans for how to reach them. Many have established net-zero emission targets by the middle of this century and increased their goals for intermediate years 2030 and 2040. Several oil and gas companies also set ambitious climate targets last year and made plans to reduce their emissions of greenhouse gases, not only from the production of oil and gas, but also from consumption.

In 2020, a unified Norwegian oil and gas industry launched a new climate roadmap and new climate targets with the aim of reducing emissions from production on the Norwegian shelf by 40 per cent in 2030, and near-zero in 2050, compared with reference year 2005. As part of its work on the stimulus package, the Storting requested a plan for a more ambitious goal of a 50-per cent reduction by 2030. The industry also wants to gradually shift the sector toward a future low-carbon society. This includes the industry focusing on offshore wind, hydrogen, as well as carbon capture and storage, which will facilitate vast emission cuts in Norway, Europe and the rest of the world.

The most important measure to achieve a considerable reduction in CO_2 emissions from production on the Norwegian shelf is electrifying installations. The industry has started a number of initiatives to identify and mature electrification projects. Realising these projects will yield considerable reductions in greenhouse gas emissions, but will also require substantial investments moving forward.

The Government presented the white paper "Climate Plan for 2021-2030", which shows how it aims to reduce greenhouse gas emissions during the 2021-2030 period in line with Norway's climate targets in collaboration with the EU. Here it proposes a gradual escalation of the CO_2 tax, leading to a considerable increase in the overall price of emissions moving forward to 2030. In spring 2021 the Government also announced a white paper on long-term value creation from Norwegian energy resources. In addition to value creation and industrialisation associated with natural resources on the Norwegian shelf, the report will cover the Norwegian power system and access to renewable energy. The white paper will also be the Government's follow up of the Storting's request for a plan for how emissions from oil and gas production can be reduced by 50 per cent by 2030.

In many countries, authorities and the private sector have focused on hydrogen as an important piece of the puzzle in reaching ambitious climate targets. The Government published a dedicated hydrogen strategy for Norway in summer 2020, and will elaborate on this in a separate hydrogen roadmap in spring 2021. Decarbonised natural gas with carbon capture and storage (CCS) can contribute to cover an anticipated increase in demand for hydrogen in both Norway and Europe. The development of CCS reached a milestone in 2020 when the authorities decided to invest in the "Longship" project. This is a demonstration project for full-scale CCS which can contribute to developing measures that are crucial in order to reach the global climate targets. It could also open the door for producing hydrogen from Norwegian natural gas while building on experiences with CO_2 injection on the Norwegian shelf. Petoro wants to be an active contributor in this effort and updated its strategy as regards sustainability and climate in 2020. In its further work, the company will consider which opportunities this presents for the SDFI portfolio.

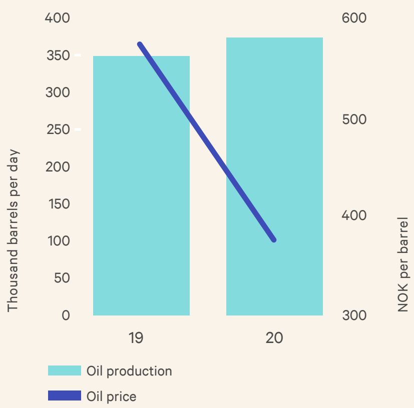
The Norwegian shelf competes for capital and competence on a global market. In order to secure and increase the value of remaining reserves and resources, it will be important to maintain the shelf's competitiveness. Konkraft's report "Competitiveness 2020" confirms that the Norwegian shelf is still competitive within important indicators such as break-even price, operating costs and CO_2 emissions per barrel. The authorities' temporary changes in the petroleum tax have also improved the shelf's competitiveness over the short term.

At the same time, additional efficiency measures are still needed on the shelf through transition and improvement measures. The development in important key indicators such as operating costs per barrel and production efficiency shows that the pace of improvement has flattened.

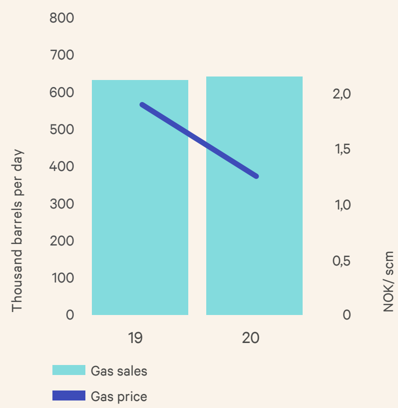
Digitalisation is an important tool to increase competitiveness. Operators and suppliers are working actively on digitalisation in areas of significant commercial importance within both reservoir, drilling and operations. New solutions are constantly being developed, and individual projects are demonstrating positive effects. However, the gains in form of significant changes in efficiency and cost level across the SDFI portfolio are not yet materialising. Broad implementation and use of new solutions across fields and the companies' portfolios, as well as extensive sharing of data, are preconditions in order for digitalisation to contribute to increased competitiveness. In this context, the focus on improvement and change management, as well as transparency and cooperation, will be the most important success factors.

The awards in pre-defined areas (APA 2020) comprised a total of 61 production licences. 30 companies were offered new exploration acreage, on par with the last four years. Interest in the North Sea and Norwegian Sea is still significant, particularly in areas near existing

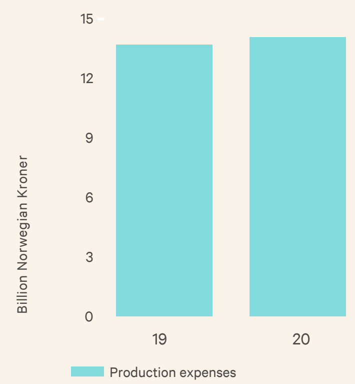
Oil production / - price



Gas sale / -price



Production expenses



infrastructure. However, interest in the Barents Sea reached a record-low and only 3 licenses were awarded. The APA round confirms the impression that medium-sized companies will be increasingly important on the Norwegian shelf in the time ahead.

Summary of SDFI results

Net cash flow to the state from SDFI totalled NOK 59 billion in 2020, NOK 37 billion lower than in 2019. This decline was mainly caused by lower prices for gas and liquids, in part offset by increased liquids production as a result of Johan Sverdrup phase 1 starting up in October 2019, as well as a positive change in working capital.

Total production reached 988 thousand barrels of oil equivalent per day (kboed), an increase of 24 kboed compared with the previous year.

Gas production amounted to 98 million standard cubic metres (mill. Sm^3) per day, which is on par with the previous year. Gas extraction was higher on Troll than in 2019 due to price optimisation, but this was offset by lower production, particularly from Snøhvit as a result of the fire in late September, as well as from Åsgard. The average realised gas price was NOK 1.25, compared with NOK 1.92 per Sm^3 the previous year.

Liquids production came to 374 kboed, 24 kboed (7%) higher than the previous year. This increase was caused by Johan Sverdrup starting up at the end of 2019. Excluding production from Johan Sverdrup, production declined by 51 kboed (14%), mainly as a result of natural production decline on multiple fields, as well as reduced production on the fields included in the Government's revised production permits. The average realised oil price was USD 40, compared with USD 65 per barrel the previous year. The price drop in USD was somewhat offset by a weaker NOK, meaning that the achieved oil price measured in NOK was 376, compared with NOK 572 per barrel last year.

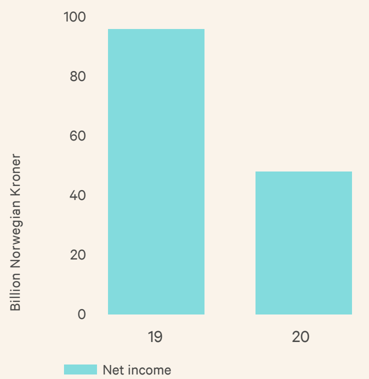
Costs incurred for investment totalled NOK 28 billion, just under NOK 1 billion higher than the year before. The increase in investment was mainly caused by higher drilling activity on multiple fields compared with the previous year. Development investments have been reduced due to the completion of Johan Sverdrup phase 1 in 2019.

The financial result for 2020 was a net income of NOK 48 billion, NOK 49 billion lower than the previous year. This decline was mainly caused by lower revenue as a result of reduced prices for oil and gas, and impairment on fixed assets in the first and fourth quarters. The reduction was partially offset by increased oil production from Johan Sverdrup.

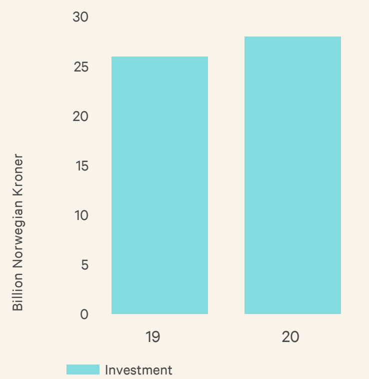
Production costs ended at NOK 14 billion, 0.3 billion higher than the previous year. However, production costs in 2019 were reduced by 1.3 billion as a result of the final settlement in the COSL case. This means that costs in 2020 compared with 2019 were actually reduced by NOK 0.9 billion. The decline was mainly caused by reduced electricity costs, as well as somewhat lower maintenance expenses in connection with prioritisations made as a result of Covid-19.

The book value of assets at 31 December 2020 was NOK 256 billion. The assets mainly consist of fixed assets related to field installations, pipelines and onshore plants, as well as current debtors. Equity at year-end came to NOK 151 billion. Overall debt amounted to NOK 105 billion, of which 84 billion was related to estimated future removal obligations.

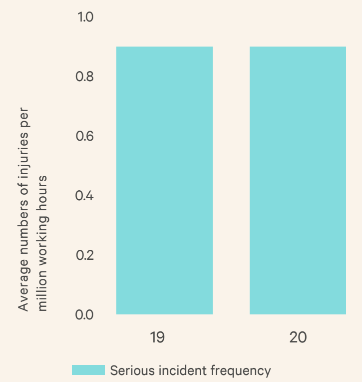
Net income



Investment



Serious incident frequency



Health, safety and the environment (HSE)

The most serious incident in 2020 was the fire on Melkøya in September. Follow-up with the licence and management, as well as learning from the incident, will be a major priority in 2021. The Covid-19 pandemic has led to considerable challenges, but the operators have been able to maintain stable and safe operations throughout the year. The pandemic has resulted in certain planned maintenance being postponed. This is a risk that will be followed up in 2021.

There was a total of 26 serious incidents in the SDFI portfolio in 2020, which yields a serious incident frequency of 0.9, about on par with 2019. Falling objects dominate the range of incidents in raw numbers. The personal injury frequency in 2020 was 3.6.

The number of serious incidents is at the same level as the previous year and remains too high. Efforts to reduce this must be prioritised. Petoro puts safety first and has clearly communicated the company's expectations for HSE management and HSE culture in the licences. In a major accident perspective, Petoro is concerned with learning across the portfolio, as well as the quality of risk assessments. Over the course of the year, Petoro has carried out multiple digital management visits at selected fields and onshore facilities with a focus on HSE.

Principal activities in 2020

As of the end of 2020, the portfolio consisted of 194 interests in production licences, 6 fewer than at the beginning of the year. In January 2021, the Ministry of Petroleum and Energy completed its awards in pre-defined areas, where an additional 10 production licenses were awarded with SDFI participation. As a major player on the Norwegian shelf, Petoro can contribute to value creation by identifying opportunities and contributing to learning across the portfolio.

At the end of the year, the portfolio consisted of 39 fields, 36 of which are in production. Martin Linge and Johan Castberg are under development. As regards the Dvalin field, which should have started up in late 2020, commercial production has been postponed as a result of a higher than allowed content of mercury in the gas stream. Tor II started production in December and is the first field on the Norwegian shelf to be reopened after having been permanently shut down.

A plan for development and operation (PDO) was submitted for Breidablikk in 2020. The project is a major subsea development with 4 seabed templates tied into the Grane platform. The development is time-critical, as a loss of reservoir pressure could create challenges for the drilling of wells in the future. At the same time, the development is scalable and robust in the face of both an upside and downside in the reserve base.

Production from mature oil fields continues to dominate liquids production from the SDFI portfolio, despite the fact that Johan Sverdrup accounted for 20 per cent of production in 2020. The Troll, Oseberg, Åsgard, Heidrun, Gullfaks and Grane fields accounted for 52 per cent of total liquids production. In 2020, gas accounted for two-thirds of overall production measured in oil equivalent. More than 70 per cent of gas output came from Troll, Ormen Lange and Åsgard.

Petoro's strategy has three main areas: competitiveness, mature fields and wells. The areas are supported by four priorities: Optimise recovery strategy, field and further development, drilling efficiency and efficient operations. The company works to seize the opportunities created by digitalisation within each and every priority. Climate and safety requirements are an important framework for the strategy.

Through focused follow-up, supported by in-depth professional commitment, Petoro works to reinforce value creation opportunities with emphasis on long-term business development. The company's climate policy emphasises that Petoro shall act as a driving force to ensure that the oil and gas industry on the Norwegian shelf is at the forefront as regards addressing the climate challenges.

In line with this strategy, the company has paid special attention to the Breidablikk, Heidrun, Maria, Snorre, Åsgard, Gullfaks and Grosbeak fields. Drilling efficiency has also been addressed as a special topic for the entire field portfolio.

Petoro carried out its own studies in connection with the Breidablikk development project, in which the company addressed resources in place and recovery potential for different parts of the field.

Petoro has conducted its own in-depth work on the Heidrun subsurface for a number of years. Dedicated simulation studies were undertaken in 2020 for the field's northern section based on new reservoir models. Through this work, Petoro identified an alternative drainage strategy that could yield higher recovery.

On Åsgard, the company used its own studies in 2020 to identify and specify projects that could help improve the recovery rate to the field's target of 60 per cent.

In light of disappointing production after start-up on Maria, Petoro has taken an active role in identifying measures to increase production. Petoro has worked to define a long-term solution to develop the field which will contribute to increase reserves.

On Gullfaks and Snorre, the company carried out its own studies to assess the well potential with an option for additional well slots, which could improve recovery.

Petoro also carried out its own studies on Troll to assess how increased gas production would affect oil production.

As regards new fields in the portfolio, the company's efforts are associated with assessing various development solutions leading up to a concept choice. Petoro emphasises the selection of development solutions with the capacity and expansion opportunities to realise the full value potential of each field.

The company conducted its own assessments for new development projects whose resource potential was associated with significant uncertainty. One example of this is Grosbeak, where Petoro carried out an external study to quality-assure the operator's geological model.

In 2020, the company followed up a substantial portfolio of major development projects in the implementation phase, including Johan Sverdrup phase 2, Johan Castberg, Martin Linge and Troll phase 3. The follow-up has been focused on factors that affect HSE, climate and implementation risk as well as ensuring sound preparations for operations. While project implementation has generally been good, the Martin Linge project has suffered multiple significant delays. There have also been challenges associated with well integrity in pre-drilled wells. Petoro led a project team where the company assessed well integrity on Martin Linge alongside the operator, which resulted in the drilling of multiple new wells. Petoro has furthermore kept a close eye on the project, with primary focus linked to safe, prudent start-up of the field.

Early technology adoption and technological advances are important in order to increase competitiveness. The primary technology areas Petoro is focusing on include technology to radically increase the drilling pace, optimising the recovery strategy by using new digital tools, next-generation developments with remote operation and low manning, as well as technology to reduce greenhouse gas emissions.

Petoro has been following up drilling efficiency on 10 of the fixed drilling facilities on the mature fields in the portfolio over a long period of time. 2020 was a weak year for the number of new wells from fixed facilities, and costs per well were at the same level as the previous year. The reason for this was that several drilling rigs were unavailable to drill new wells for large parts of the year. This was in part caused by prioritising other activity, such as larger projects and well maintenance, but was also a consequence of technical challenges. In order to realise resources in the mature fields and improve the recovery rate, the drilling efficiency must be increased and the cost per well reduced.

Digitalisation as an instrument to improve and increase competitiveness is high on the strategic agenda of most oil and gas companies and suppliers. Petoro actively uses its role in the joint ventures and on the Norwegian shelf to reinforce the momentum for improvement and contribute to change processes, as well as to facilitate efficient data sharing. Petoro has also employed strategic collaboration with Schlumberger, aimed special efforts toward improving quality and streamlining work processes in reservoir modelling.

In 2020, Petoro has seen significant activity associated with maturing electrification measures that could contribute to considerable reductions in greenhouse gas emissions from the SDFI portfolio. Electrification of mature fields is a time-critical measure as the projects' income potential is reduced when the remaining operating period is curtailed. Petoro therefore actively works with operators and partnerships to maintain progress on these projects. Several large electrification projects on Troll, Oseberg, Snøhvit, Kårstø and Draugen were further matured throughout the year toward planned investment decisions in 2021 and 2022. Equinor has also started a major project to study the possibility of joint electrification of fields on the Halten Bank, including Åsgard and Heidrun. This project is planning to pass a DG1 decision in 2021. If currently planned electrification projects can be realised, they could, along with Hywind Tampen and planned shutdowns and scale-backs on fields, collectively contribute to reducing current emissions from the SDFI portfolio by 30 to 60 per cent leading up to 2030.

In 2020, Petoro was a participant in 12 exploration wells, nine of which were wildcat wells. These resulted in two minor discoveries, the Lomre oil discovery near the Vigdis field and the Swisher oil and gas discovery near the Fram field. Both discoveries are presumed to be commercial, as they can be tied into existing infrastructure.

The portfolio's estimated remaining reserves totalled 5,045 million boe at the end of the year, down by 290 million boe from the year before. Reserve growth totalled 72 million boe, which was mainly caused by the decision to develop Breidablikk. With a production of 362 million boe, this yielded a reserve replacement ratio of 20 per cent, compared with 40 per cent in 2019.

Research and development

Petoro contributes to research and development (R&D) through the SDFI meeting its share of the operator's costs for general research and development pursuant to the Accounting Agreement. The funds are managed by the respective operators. This amounted to NOK 499 million for the SDFI in 2020. This is in addition to projects aimed at field-specific qualification of new solutions or pilot application of technology in licences, where the costs are charged to the joint ventures. Petoro does not initiate its own technology development and research projects.

Marketing and sale of the products

All oil and natural gas liquids (NGL) from the SDFI portfolio are sold to Equinor. Equinor is responsible for marketing all the SDFI's natural gas along with its own gas as a single portfolio, at the state's expense and risk. Petoro's task is to monitor that Equinor's marketing and sale of the state's petroleum together with its own production complies with the marketing and sale instructions issued to Equinor. The objective of the marketing and sale instructions is to achieve the highest possible value for Equinor's and the state's petroleum and ensure fair distribution of the total value creation. Petoro specifically follows up matters of significant value, matters of principle and potential conflicts of interest.

In 2020, Petoro prioritised matters within the marketing and sale of both oil and gas. In this context, the company has maintained particular focus on Equinor's management and follow-up system and models for maximum value creation and fair distribution. The company has also devoted particular attention to challenges related to Covid-19 with subsequent volatile oil and gas prices.

Petoro is concerned with ensuring that the products are marketed and sold in the markets where the highest price can be achieved, in addition to ensuring that the portfolio's flexibility is used to achieve the highest possible value creation. Optimal further development, regularity, utilising capacity and flexibility in production facilities and infrastructure will be highly important in this context in order to achieve maximum value creation.

Selected verifications have been conducted to ensure that the SDFI receives its rightful share of sales-related costs and revenues. Petoro has maintained a dialogue throughout the year with the Ministry of Petroleum and Energy as regards clarifications related to the marketing and sale instructions. The company has also had an extensive dialogue with Equinor associated with monitoring the marketing and sale, including follow-up of new shared goals for value creation.

Working environment and expertise

Petoro's personnel have extensive experience from the petroleum industry and a high level of expertise. The individual employee is crucial to the company's deliveries and success, and the Board places emphasis on ensuring that Petoro offers competitive terms and a stimulating working environment that attracts people with the right expertise.

Opportunities for professional and personal development help to retain, develop and attract skilled personnel.

The company's human resources policy shall ensure that Petoro is an attractive workplace for existing and future employees. This includes diversity and equality, competence development and facilitating a good working environment that prevents discrimination due to age and gender, as well as cultural and geographic background.

At the end of 2020, Petoro had 64 employees, one less than the year before. There were four new hires in 2020, one of which had signed their contract in late 2019. One additional employee signed their contract in 2020, with planned start-up in 2021. The percentage of women in the company was 30 at the end of 2020, 43 per cent in company management and 57 per cent on the company's board.

Absence due to illness was 2.1 per cent, compared with 1.5 per cent the previous year. The company considers this to be low. Petoro emphasises close follow-up and dialogue as described in the 2019-2022 inclusive workplace (IA) agreement to promote health and prevent absence due to illness. No occupational accidents were recorded among Petoro's personnel in 2020. As part of the effort to safeguard a good working environment, the company conducts annual employee surveys, which are followed up with measures.

A new organisational structure was implemented in 2020, featuring team leaders with personnel responsibility and technical supervisors. The company carried out extensive work in 2020 in connection with updating the salary system and employee benefits. As part of this effort, the company updated key HR processes, including performance reviews, rewards and competence development.

Collaboration in the company's working environment committee (AMU) and works council (SAMU) lays an important foundation for a good working environment. Cooperation in these bodies is considered to be good.

Work to promote equality and prevent discrimination

Petoro does not discriminate on the basis of gender, religion, national or ethnic affiliation, social group or political views. The company emphasises equal opportunities between genders for professional and personal development as well as pay. The company facilitates flexible working hours and adaptation of working conditions to ensure that employees with disabilities can also work for Petoro. "Statement on corporate social responsibility" also provides account of diversity, inclusion and equality.

The ratio of women in Petoro has remained above 30 per cent since 2009, and was 30 per cent in 2020 as well. The average age in Petoro is 53; 52 for men and 54 for women.

Petoro has had at least 40 per cent women on its board since its inception. The rules for electing employee representatives to the Board require one representative for each gender. The current ratio of women in company management is 43 per cent, compared with 25 per cent in 2019. There is only one woman among six representatives in the AMU and SAMU.

Female representation in the company's various wage groups is in accordance with the ratio of women in the company as a whole. 33 per cent of promotions in 2020 involved women. The company has a number of employees from diverse cultural and ethnic backgrounds. Seven nationalities are represented among the company's employees.

There were three instances of part-time employment in Petoro in 2020, all of which were voluntary, and both genders were represented. Six people took out parental leave over the last three years. These were all men, and they took out an average of 64 days.

Petoro has an external whistleblowing channel.

In the stipulation of salaries and wage settlements, the company is cognisant of treating women and men equally. The annual wage settlement process includes verifying that there are no systematic wage differences between gender and age. An equivalent review is undertaken annually in connection with performance reviews and promotions. There are no systematic or significant differences between gender and age groups, either as regards wages, wage development, performance evaluations or development opportunities.

The company facilitates a flexible customising of working hours. The "Petoro Flex" scheme was adopted in 2020, which entails increased flexibility and a future-oriented form of working. Petoro also provides full pay during maternity and paternity leave and has fully implemented the principles of the inclusive workplace as described in the IA agreement for 2019-2022.

Petoro has systematically focused on age and gender in recruitment processes in recent years, and will reinforce its emphasis on balanced demographics in external recruitment moving forward. The company's job postings are designed with the intent of attracting both women and men, as well as various age groups. When candidates are selected for new hires, the company emphasises both gender and diversity both as regards age and background.

In order to systematically quantify diversity and create a broader consciousness surrounding equality, as well as focus on measures to reach concrete achievements, the company will participate in Ernst & Young's SHE Index starting in 2021.
Annual reporting on equality is presented to the Board and AMU/SAMU.

Corporate governance

The Board emphasises good governance to ensure that the state's portfolio is managed in a way which maximises financial value creation in a long-term comprehensive perspective.
Requirements for governance in the public sector are specified in "Regulations on Financial Management in Central Government" and in standards for good corporate governance.
The Board observes the Norwegian state's principles for sound corporate governance as expressed in Storting Report No. 8 2019-2020 "The Norwegian state's direct ownership in companies - Sustainable value creation" and those sections of the "Norwegian Code of Practice for Corporate Governance" regarded as relevant to Petoro's activities and the frameworks established by its form of organisation and ownership.

Petoro's values base and ethics are embedded in its values and guidelines on business ethics.

The management system is tailored to Petoro's distinctive nature, and enterprise management is based on balanced management by objectives, under which objectives are established that support the company strategy.

Reference is also made to the dedicated chapter on corporate governance in the annual report.

Corporate social responsibility

Petoro discharges its corporate social responsibility in line with the relevant guidelines, which are tailored to the company's role. Petoro's funding for performing its management duties and for running the company is provided through appropriations from the government. Petoro does not have the opportunity to provide monetary support to social causes.

Measures which ensure that Petoro discharges its CSR include business ethics guidelines, the HSE declaration, climate policy and an HR policy that ensures diversity and equal opportunity. Petoro has no activity outside Norway, but participates indirectly in certain foreign activities as licensee and through the marketing and sale instructions.
The board provides a more detailed presentation of the exercise of CSR in a separate section of the annual report.

Risk management and internal control

The Board assessed the risk picture in 2020 based on the adopted strategy and stipulated goals for the upcoming year, and the climate risk was clarified in the company's governance over the course of the year. Measures were also identified for reducing the most significant risks which Petoro has an opportunity to influence within the company's established frameworks.

Two internal audit projects were carried out in 2020. The results were summarised in a report to the Board describing the audit actions undertaken, findings, as well as proposed and implemented measures for the internal audit projects.

The internal audit projects were conducted by PwC, which has also been responsible for the internal financial audit of the SDFI for the 2020 accounting year.

Work of the Board

The Board has overall responsibility for the management of Petoro, including ensuring that appropriate management and control systems are in place, and for exercising supervision of the day-to-day conduct of the company's business.
The Board met eight times in 2020.
An annual schedule of meetings has been established for the work of the board, with emphasis on considering topical commercial issues and following up strategies, budgets and interim results. Balanced scorecards are a key instrument used by the Board in following up the company's results.

The Board considers major investment decisions in the portfolio. It also follows up activities in the licences and the monitoring of marketing and sales and financial management, including assessments of the overall risk scenario.

The Board has chosen to organise its work related to compensation through a sub-committee comprising two of the shareholder-elected directors, one of whom is the deputy chair. No other sub-committees have been established.
A declaration has been drawn up by the board on remuneration of the chief executive and senior personnel.

Conflicts of interest are a fixed item on the agenda for the Board's meetings and consideration of matters, and any conflict of interest will entail that the director withdraws from the Board's consideration of the matter in question.

The Board conducts an annual self-assessment which includes a review of its own work and form of working, as well as cooperation with company management. The self-assessment for 2020 is complete.

The work of the Board is based on the "Board Instructions", which describe its responsibilities and mode of working. As an appendix to the Instructions, the Board has adopted supplementary provisions for matters which it will consider. The Board also reviews the company guidelines on business ethics and CSR, as well as the Board Instructions. Directors must routinely report their ownership of shares or similar interest in other companies which could constitute, or which could be perceived as constituting, a conflict of interest with their position. Directors must also disclose other relationships with licensees in petroleum activities on the Norwegian shelf, or with companies that supply licensees.

Each director and the Board as a collective shall seek to strengthen their expertise in various ways. These include participation in courses and conferences and generally following developments within the business area.

Grethe K. Moen resigned from her position as CEO on 7 September 2020, and Kjell Morisbak Lund was appointed acting CEO as of the same date. Kristin F. Kragseth was hired as the new CEO in December 2020 and will assume this position 1 June 2021.

The Board of Directors of Petoro AS consists of Gunn Wærsted as chair, deputy chair Brian Bjordal, Trude J. H. Fjeldstad, Hugo Sandal and Kristin Skofteland as shareholder-elected directors. Board members May Linda Glesnes and Ragnar Sandvik were elected to represent the employees.

Petoro AS

Share capital and shareholder

Petoro AS was established as part of the restructuring of the state's oil and gas activities in 2001, when Equinor (previously Statoil) was partially privatised and management of the SDFI was assigned to Petoro AS. The company's operations are governed by Chapter 11 of the Petroleum Act. The Ministry of Petroleum and Energy constitutes its general meeting.

Petoro's share capital at 31 December 2020 was NOK 10 million, distributed among 10,000 shares owned by the Ministry of Petroleum and Energy on behalf of the Norwegian state. Petoro's business office is in Stavanger.

Net income and allocations

Petoro AS maintains separate accounts for all transactions relating to participating interests in the joint ventures. Revenue and expenses from the SDFI portfolio are kept separate from day-to-day operation of the company. Cash flow from the portfolio is transferred to the central government's own accounts with Norges Bank. Accounts for the portfolio are presented both on the cash basis used by the government and in accordance with the Norwegian Accounting Act and Norwegian generally-accepted accounting principles (NGAAP).

Petoro AS ceased to exist as a group when the subsidiary Petoro Iceland AS was liquidated in 2020. The company's share capital of NOK 2 million was returned to the Ministry of Petroleum and Energy over the course of the year.

Funds for operating Petoro AS are provided by the state, which is directly responsible for the contractual obligations incurred by the company.

NOK 360 million was appropriated for ordinary operation of Petoro AS in 2020 compared with NOK 359 million in 2019.

Total expenses in 2020 were within the framework of the Board's approved budget, the company's appropriation and letter of assignment. Net income for Petoro AS was NOK 4 million. The Board proposes that the profit in Petoro AS be transferred to other equity. Including net income for the year, other equity amounted to NOK 18 million as of 31 December 2020.

Pursuant to Section 3-2a of the Norwegian Accounting Act, the board affirms that the annual accounts for the portfolio and the company provide a true and fair view of the company's assets and obligations, financial position and results of the business, and that the annual accounts have been prepared under the assumption that the company is a going concern. The company has satisfactory equity and low financial risk.

Outlook

Over the course of last year, the oil and gas market experienced a significant drop in demand and a situation with highly volatile prices. When and how quickly the demand will rebound will depend on how the pandemic develops and the necessity of continued measures to limit the spread of infection, as well as the effect this will have on the global economy. Global demand for gas could return to 2019 levels as early as 2021, while this is expected to take more time for the demand for oil. At the same time, the prices of both oil and gas are currently on par with the time leading up to the outbreak of the pandemic. In a turbulent market, the SDFI portfolio has emerged as highly resilient and contributed considerable revenues to the state in 2020.

It is difficult to say how extensive the effect of the pandemic will be on economic growth, energy consumption and greenhouse gas emissions, or how long this effect will last. The UN Sustainable Development Goals and the Paris Agreement will entail a substantial transition to clean energy. This is expected to challenge fossil energy sources such as coal, oil and gas. The energy transition is already under way, but the world's energy systems are complex, and will take time to change. It is highly uncertain how rapidly the development will take place and projections indicate that current policies will not be sufficient in order to achieve the target in the Paris Agreement.

Last year, the EU bolstered its climate target for 2030 and has announced more stringent policy instruments in its follow-up of the "European Green Deal". This could impact the oil and gas industry by influencing both demand and prices. In turn, this could affect prevailing regulation of the industry in Norway, since EU climate policy establishes a framework for Norwegian policy in the area.

Nevertheless, the world needs energy, and oil and gas are expected to remain an important part of the energy mix for many years to come. Demand is expected to develop differently in different regions, where emerging economies in particular will account for the greatest growth, while the demand for fossil energy is on the decline in Europe and other mature economies.

Declining own production of gas in Europe could allow the Norwegian gas to retain a key position. Norwegian gas has a number of competitive advantages, such as reliability of supply, low costs, low greenhouse gas emissions from the production and well-developed infrastructure. Market-related climate risk will increase over the longer term as a result of ambitious climate targets. Further climate measures are planned and will contribute to considerable cuts in emissions from production. These types of measures are important not only to demonstrate that the oil and gas industry is taking responsibility for the climate challenge, but also because this could yield a competitive advantage in a future low-emission society.

Over the next few years, Petoro will contribute to identify and mature a number of electrification projects, ensure quality in the basis for decisions, and that the projects achieve sufficient profitability to be approved in the joint ventures. Robust power supply will be decisive for these decisions. The Government's plan to raise the carbon price toward 2030 sets the direction for working with climate measures in the joint ventures. Furthermore, Petoro will work to obtain data to document the SDFI portfolio's low carbon footprint from production and transport, and also assess opportunities for the SDFI in any future decarbonised value chains.

There is still a considerable potential for long-term value creation, activity and employment associated with oil and gas activities on the Norwegian shelf. The mature fields make up the backbone of the Norwegian shelf in general and in the SDFI portfolio in particular. There are still considerable value creation opportunities associated with these fields and utilisation of the infrastructure represented by the mature fields. Petoro is a driving force for improving recovery rates and accelerating production. This presumes the drilling of a considerable number of new wells, high drilling efficiency, optimising recovery strategies and efficient operations.

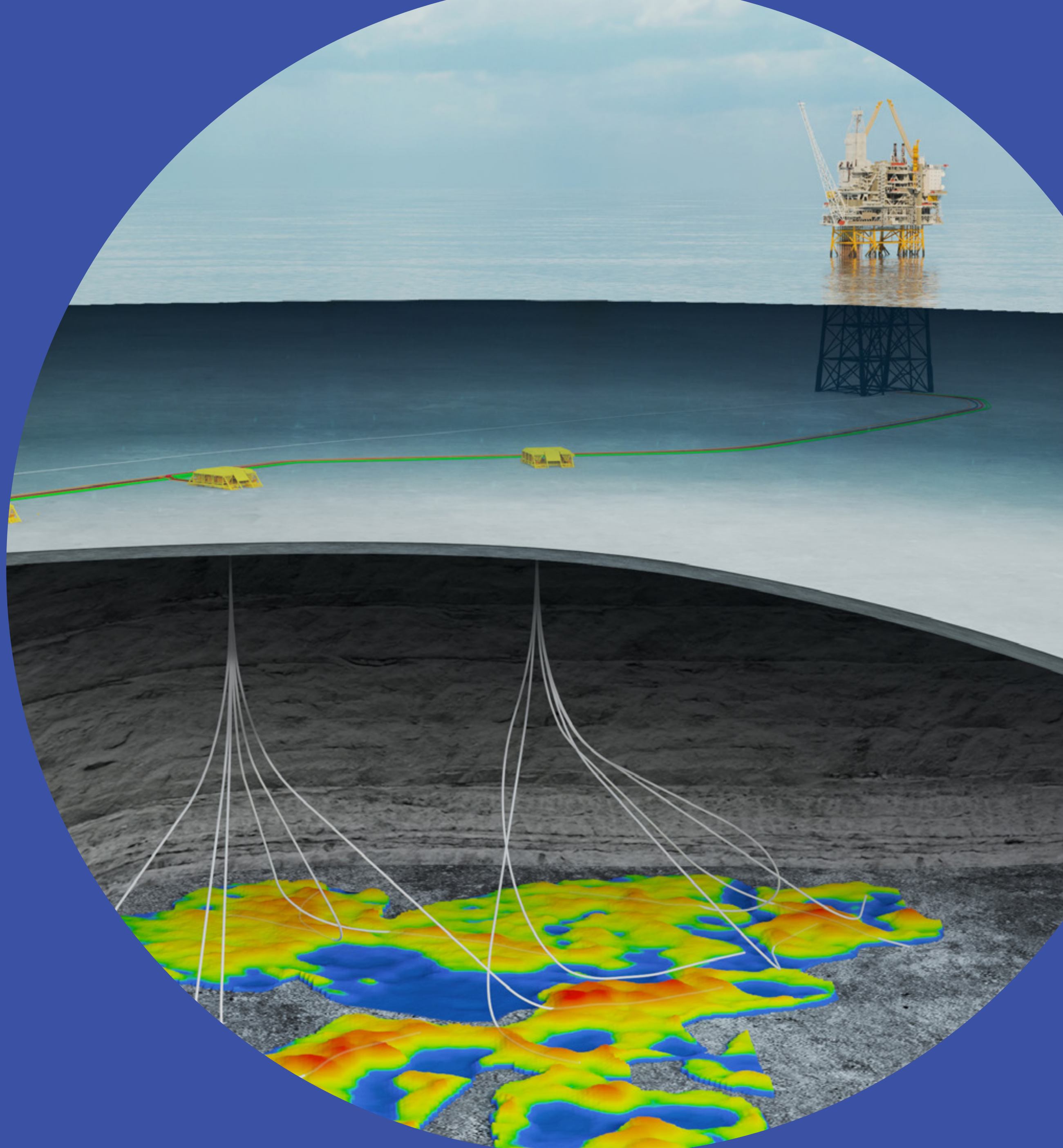
The SDFI portfolio is characterised by relatively low costs and low greenhouse gas emissions. Profitable activity can therefore be maintained even in a future with uncertainty and volatility in prices and potentially tighter regulations, including higher prices for greenhouse gas emissions. However, in order to safeguard this competitive position, it is important for the industry to continue the efforts that are under way for further improvement and efficiency measures, including digitalisation of work processes and reductions in the carbon footprint.

Stavanger, 4 March 2021

Gunn Wærsted Chair	**Brian Bjordal** Deputy chair	**Trude J. H. Fjeldstad** Director	**Kristin Skofteland** Director
Hugo Sandal Director	**Ragnar Sandvik** Director, elected by the employees	**May Linda Glesnes** Director, elected by the employees	**Kjell Morisbak Lund** Acting CEO

2

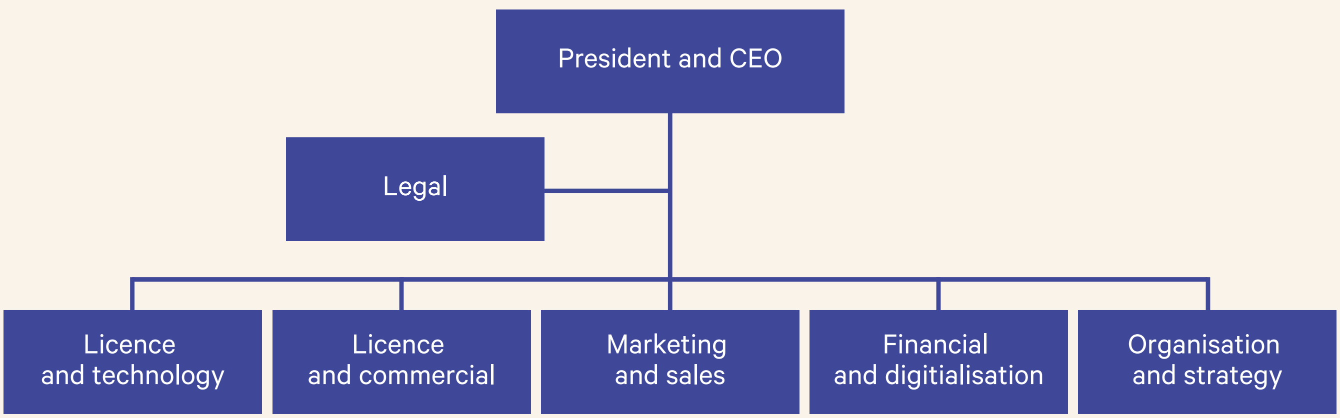
Introduction to the enterprise and key figures 2020



Breidablikk
Illustration: Equinor

Petoro as

Petoro manages the State's Direct Financial Interest (SDFI). The company's principal objective is to generate the highest possible financial value from the SDFI portfolio. At year- end, the company had 64 employees.



The Ministry of Petroleum and Energy, in the person of the minister, represents the government as sole owner and serves as the company's general meeting and highest authority. The Board has overall responsibility for administration of the company. Petoro's organisation is shown in the figure above.

Key figures for Petoro AS

	2020	2019	2018
Total allocation/ administration grant (NOK million)*	**288**	287	280
Employees at 31 December	**64**	65	64
Full-time equivalents (average number of full-time equivalents employed)	**62.8**	62.9	64.2
Payroll share of administration grant (per cent)**	**37**	37	38
Payroll costs per full-time equivalents (NOK million)**	**1.71**	1.71	1.64
Percentage of consultants in administration grant (per cent)	**19**	20	16
ICT expenses (NOK million)	**30**	35	33
Office lease expenses incl. overhead costs	**10.7**	10.8	11.2

**) excluding VAT*
***) Payroll in Note 3, excl. provision agreed on one year's severance pay as well as salary and pension for two months' remaining notice period in 2021 for the former CEO*

The State's Direct Financial Interest (SDFI)

The SDFI scheme was established in 1985. Under this arrangement, the state participates as a direct investor in petroleum activities on the Norwegian continental shelf (NCS), so that the state receives revenues and covers expenses associated with SDFI's ownership interests. Petoro acts as licensee for the state's ownership interests in production licences, fields, pipelines and onshore facilities, and manages this portfolio based on sound business principles. At the end of 2020, the portfolio consisted of 194 production licences, 36 producing fields and 16 pipelines and terminals, as well as follow-up of 13 production licences with net profit agreements.

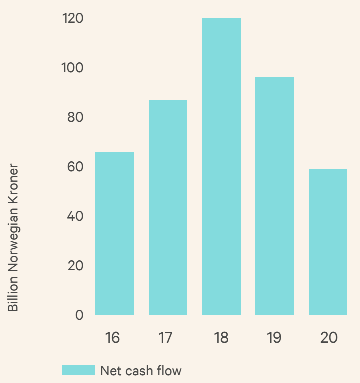
The SDFI portfolio represents about one-third of Norway's overall oil and gas reserves and yielded a cash flow of NOK 59 billion in 2020.

Key figures for SDFI

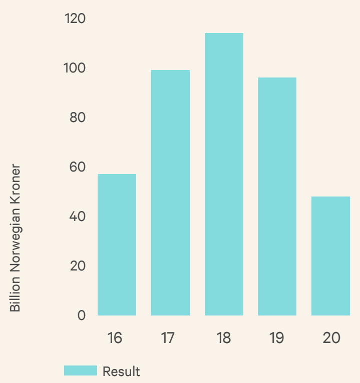
	2020	2019	2018
Net cash flow (in NOK million)	**58,711**	96,184	119,666
Operating revenue (NOK million) (NGAAP)	**108,940**	153,395	177,431
Production expenses (million NOK) (NGAAP)	**14,074**	13,690	17,440
Net income for the year (in NOK million) (NGAAP)	**47,754**	95,647	114,210
Investment (in NOK million) – capital accounts	**27,601**	26,331	22,555
Production — oil and NGL (thousand bbl/d)	**374**	349	370
Production - dry gas (million scm/d)	**98**	98	113
Production - total (thousand boe/d)	**988**	964	1,084
Remaining reserves (million boe)	**5,045**	5,335	5,544
Reserve replacement rate (annual percentage)	**20**	40	16
Reserves added (million boe)	**72**	142	62
Oil price (USD/bbl)	**40**	65	71
Oil price (NOK/bbl)	**376**	572	573
Gas price (NOK/scm)	**1.25**	1.92	2.17

Key figures 2020

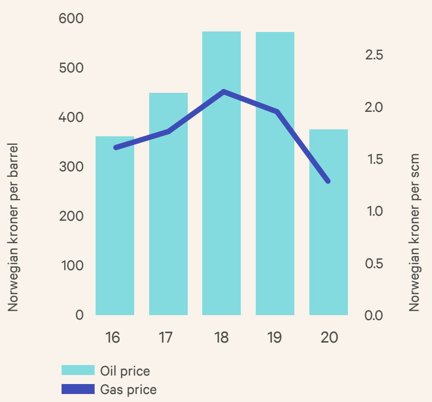
Cash flow



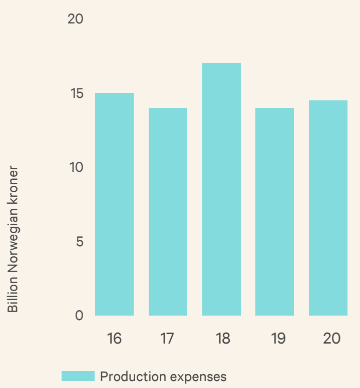
Result



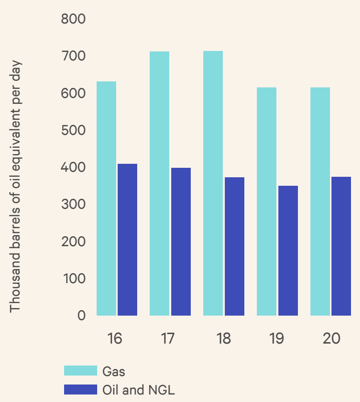
Oil and gas prices



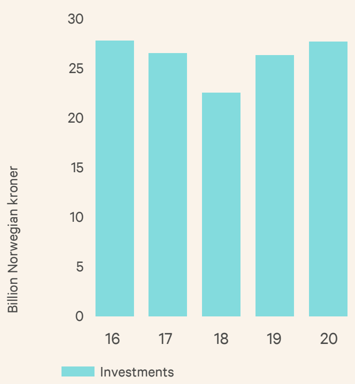
Production expenses



Production



Investments (cash)



3

Activities and results from the year

Troll A with new Troll phase 3 module August 2020.
Photo: Øyvind Gravås and Even Kleppa / Equinor

Activities and results in 2020

Reference is made to the letter of assignment to Petoro AS for 2020, and to the business plan for Petoro AS. The targets set in the letter of assignment and Petoro's performance in relation to these are presented below.

Safeguarding the state's direct participating interests

Petoro shall be an active partner that helps maximise the value of the SDFI portfolio through comprehensive assessments. The work shall be focused on areas and tasks where the company, based on the portfolio and in interaction with other players on the Norwegian continental shelf, can provide a particular contribution toward increased value creation, considering the state's overall financial interests.

Operational targets

"Petoro will establish operational targets with the aim of maintaining a high level of production in 2020."
Management parameters: Volume figures. Development over time and description of deviations.

Total production amounted to 988 thousand barrels of oil equivalent per day (kboed), an increase of 24 kboed compared with the same period last year.

Gas production amounted to 98 million standard cubic metres (million scm) per day, which is on par with the previous year. As a result of price optimisation, Troll experienced higher gas extraction in 2020 than the previous year, but this was offset by lower production, particularly from Snøhvit as a result of the fire in late September, and from Åsgard.

Liquids production was 374 kboed, 24 kboed (7%) higher than the previous year. The increase was caused by Johan Sverdrup starting up in late 2019. Excluding production from Johan Sverdrup, production declined by 51 kboed (14%), mainly as a result of natural production decline on multiple fields, as well as reductions in oil production for the fields included in the Government's revised production permits.

In addition to ordinary licence follow-up, where the operator and partners set production targets and the operator is challenged on nonconformity management and mitigating measures, Petoro's efforts in 2020 were particularly aimed at measures to complete new wells and planned drilling programmes. These are important tools to increase production from the SDFI portfolio.

"Petoro will prepare operational targets as regards efficient operations."
Management parameters: Development in operating expenses with description of deviations.

Efficiency measures on fields in operation have been an important part of Petoro's work in 2020 as well. The company has been a driving force for efficiency measures and cost reductions, particularly within the area of drilling and wells, as well as operations and maintenance.

Petoro is closely following the development in production expenses, including costs for operation and maintenance of fields and infrastructure. Adjusted for provisions for and subsequent settlement in the COSL case, production costs remained stable from 2018 to 2019, but declined somewhat in 2020 chiefly due to lower electricity prices. Petoro follows up costs and efficiency measures, e.g. by using benchmark analyses.

The need for efficiency improvements and cost reductions within the drilling and well service area has been an important issue for Petoro over several years. The company has followed the development in drilling efficiency on ten fixed installations on five selected fields in the portfolio over a number of years. The number of wells from fixed installations was reduced in 2020 compared with previous years. The reason for this is that several drilling rigs have been unavailable to drill new wells for large parts of the year, in part due to prioritising other activity such as larger projects and well maintenance, and in part as a result of technical challenges. Petoro established a roadmap in 2020 for greater drilling efficiency in an effort to increase the drilling pace and reduce the cost per well.

Digitalisation is an important instrument for efficient operations and increased competitiveness. Petoro has therefore been a driving force for broad implementation across the SDFI portfolio, as well as for establishing and following up plans on selected fields. Broad implementation of new work processes and associated gains realisation are proceeding, but the pace is slower than expected. The company has identified concrete improvement opportunities within drilling and proposed them in selected joint ventures. The company also actively participates in select industry forums with particular emphasis on sharing data. Petoro has also worked for efficient access to authority data for partners. The company has also employed strategic collaboration with Schlumberger, aimed special efforts toward improving quality and streamlining work processes in reservoir modelling.

"Petoro will prepare operational targets as regards safeguarding safety and environmental concerns."
Management parameters: Serious incidents and CO_2 emissions. Development over time and description of deviations.

The most serious incident in 2020 was the fire on Melkøya, which also resulted in a lengthy shutdown. The serious incident frequency, defined as the number of actual and potential serious near-miss incidents per million hours worked, is still too high. There was a total of 26 serious incidents in the SDFI portfolio in 2020, which yields a serious incident frequency of 0.9, about on par with 2019. Falling objects dominate the range of incidents in raw numbers. The personal injury frequency, i.e. the number of personal injuries per million hours worked, was reduced from 3.9 in 2019 to 3.6 in 2020.

The objective that the Norwegian petroleum activities shall be world-leading in health, safety and the environment (HSE) remains firm. This means that the industry must continue its work to continuously improve the safety level. Measures to limit the spread of Covid-19 and handle outbreaks have also led to challenges over the course of the year. Petoro has been concerned with putting safety first in 2020, and has clearly communicated the company's expectations for HSE management and HSE culture in operational activities offshore, at onshore facilities and in projects. Petoro also participated in a number of digital management visits in 2020, focusing on health, safety and the environment on selected fields, projects and onshore plants. The pandemic has resulted in certain planned maintenance being postponed. This is a risk that will be followed up in 2021.

The most important measure to achieve considerable reductions in CO_2 emissions from production on the Norwegian shelf is electrifying installations. The industry has embarked upon a number of initiatives to identify and mature electrification projects. If they are realised, these projects will yield considerable reductions in greenhouse gas emissions, but will also require substantial investments moving forward. Petoro is working to ensure that the oil and gas industry on the Norwegian shelf will remain a leader in facing the climate challenges, in line with the roadmaps and goals the industry has set for the Norwegian shelf. Petoro has had considerable activity in 2020 associated with maturing measures for electrification of fields and onshore plants, with significant efforts linked to projects on Snøhvit and Troll. Over the next few years, Petoro will contribute to identify and mature a number of electrification projects, ensure quality in the decision documentation, and that the projects achieve sufficient profitability for them to be approved in the joint ventures.

Petoro prepares the "Annual External Environment Report" each year, which is published after the annual report. According to the 2019 report, emissions of carbon dioxide (CO_2) from the SDFI portfolio amounted to 2.97 million tonnes, a decline of two per cent from 2018. However, CO_2 emissions per produced unit increased from 7.6 kg/boe in 2018 to 8.4 kg/boe in 2019. The increase was mainly caused by lower production. A total of 60 new measures were implemented in 2019 to reduce CO_2 emissions from the SDFI portfolio. The measures are expected to yield CO_2 emission reductions of 70,000 tonnes.

Priority targets and activities in 2020

Petoro shall devote particular attention to HSE risk, measures to reduce greenhouse gas emissions, well maturation, digitalisation, cost development and effective operating practices across production licences in the SDFI portfolio.

"Petoro shall contribute to good solutions through separate in-depth work, studies and verifications for further development of the mature fields with important milestones in 2020."
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

In line with Petoro's strategy, the company focused special efforts in 2020 toward the Breidablikk, Heidrun, Maria, Snorre, Åsgard, Gullfaks and Grosbeak fields. Well maturation and digitalisation have also been addressed as special topics for the entire field portfolio.

Petoro has conducted its own in-depth work on Heidrun for a number of years. Dedicated simulation studies were undertaken in 2020 for the field's northern section based on new reservoir models. Through this work, Petoro identified an alternative drainage strategy that could yield higher recovery. On Gullfaks and Snorre, the company carried out its own studies to assess the well potential with an option for additional well slots, which could improve recovery.

In light of disappointing production after start-up on Maria, Petoro has taken an active role in identifying measures to increase production. Petoro has worked to define a long-term solution to develop the field which will contribute to increase reserves. On Åsgard, the company used its own studies in 2020 to identify and specify projects that could help improve the recovery rate to the field's target recovery rate of 60 per cent. Petoro also carried out its own studies on Troll to assess how increased gas production would affect oil production.

Electrification is included as part of a comprehensive further development of the mature fields. Electrification often takes place alongside a licence's desire for extended installation lifetime, or a need for more power for e.g. gas compression, in both instances to increase recovery and value. Petoro will continue to work actively to mature measures to reduce climate impact, as well as ensure good technical and cost-effective solutions. Electrification of mature fields is a time-critical measure as the projects' income potential is reduced when the remaining operating period is curtailed. Petoro therefore actively works with operators and partnerships to maintain progress on these projects.

"Petoro shall contribute to good operational preparations through its own in-depth work, studies and verifications for projects in the implementation phase."
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

In 2020, the company followed up a substantial portfolio of major development projects in the implementation phase, including Johan Sverdrup phase 2, Johan Castberg, Martin Linge and Troll phase 3. The follow-up has been focused on factors that affect HSE, climate and implementation risk as well as ensuring sound preparations for operations.

Covid-19 has resulted in delays and increased costs on projects in the implementation phase. The greatest consequences of this have been experienced on Martin Linge and Johan Castberg. The Martin Linge project has been characterised by multiple severe delays. There have also been challenges associated with well integrity in pre-drilled wells. Petoro led a project team on Martin Linge where the company assessed well integrity alongside the operator, which resulted in a decision to drill multiple new wells. Petoro has furthermore kept a close eye on the project, with primary focus linked to safe, prudent start-up of the field. As regards Johan Castberg, Petoro has been closely following the development in correcting welding defects, and has also devoted significant attention to HSE in project implementation.

"Petoro shall reduce uncertainty in the resource and reserve base through its own in-depth work, studies and verifications for discoveries and fields in the planning phase and comprehensive solutions that preserve future flexibility."
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

The company conducted its own assessments for new development projects whose resource potential was associated with significant uncertainty. One example of this is Grosbeak, where Petoro carried out an external study to quality-assure the operator's geological model.

A plan for development and operation (PDO) was submitted for Breidablikk in 2020. The project is a major subsea development with 4 seabed templates tied into the Grane platform. The development is time-critical, as a loss of reservoir pressure could create challenges for the drilling of wells in the future. The development is scalable and robust in relation to both upsides and downsides.

Petoro has also assessed and provided input in connection with planning a new development on Kristin Sør.

"Petoro shall contribute to development solutions to realise new discoveries through its own in-depth work, studies and verifications."
Management parameters: Initiatives, measures and work initiated by Petoro, achieved results and their effects.

The SDFI portfolio has a record-high number of projects to be matured for a decision by 2022. The future projects primarily consist of further development projects and electrification projects on mature fields, but also a major discovery like Wisting, and a few medium-size discoveries such as Linnorm, Grosbeak, Lavrans and Peon.

As regards new fields in the portfolio, Petoro's efforts are associated with assessing various development solutions leading up to a concept choice. Petoro emphasises the selection of development solutions with the capacity and expansion opportunities to realise the field's full value potential, in addition to low CO_2 emissions. Robustness in the chosen solutions and technical maturity in decision documentation are also important parts of Petoro's assessment.

Monitoring Equinor's marketing and sale of the state's petroleum

Petoro will monitor to ensure that Equinor conducts the marketing and sale of the state's petroleum alongside its own in accordance with the marketing and sale instructions issued to Equinor ASA. This includes contributing to equitable distribution of revenues and costs between the state and Equinor.

"Petoro will monitor the marketing and sale of the state's petroleum with attention to the market situation, potential differences in interests, as well as issues of significant importance as regards value."
Management parameters: Describe which initiatives and activities have been carried out and which considerations form the basis for the company's priorities. What results have been achieved through the activities and what impact have they had as regards value.

In line with the letter of assignment, Petoro has focused its risk-based follow-up on prioritised issues within the marketing and sale of both oil and gas. In this context, the company has maintained particular focus on Equinor's management and follow-up system as regards maximum value creation and equitable distribution. As a result of Covid-19, with subsequent volatile oil and gas prices, Petoro has devoted particular focus in 2020 to conflicts of interest that may result from the market challenges.

Petoro is concerned with ensuring that the products are marketed and sold in the markets where the highest price can be achieved, in addition to ensuring that the portfolio's flexibility is used to achieve the highest possible value creation. In this context, optimal further development, regularity, utilisation of capacity and flexibility in production facilities and infrastructure are of significant importance in order to achieve maximum value creation.

Selected verifications have been conducted to ensure that the SDFI receives its rightful share of sales-related costs and revenues.

Financial management

"Petoro shall

- **ensure sound financial management and control of SDFI pursuant to the Regulations on Financial Management in Central Government and instructions for financial management of the SDFI**
- **prepare and follow up budgets and forecasts, conduct accountancy and perform periodic variance analyses and reporting on the SDFI's financial standing and development."**

In 2020, Petoro has ensured sound financial management and control of the SDFI in line with the Regulations on Financial Management in Central Government and instructions for financial management of the SDFI.

The company has furthermore prepared and followed up budgets and forecasts, been responsible for accountancy through an external accountant and performed periodic variance analyses and reporting on the SDFI's financial standing and development in accordance with deadlines specified in the letter of assignment.

Petoro also received a clean audit report from the Office of the Auditor General for 2019.

Efficient operations

Petoro will work systematically to utilise its allocated resources in an efficient manner. The company will prepare operational targets and indicators that demonstrate the efficiency of the company's operations and which can be compared over time.

"Petoro will design its performance of the company's primary tasks in an efficient manner"
Management parameters: Initiatives, measures and work initiated by Petoro and demonstrating their impact.

Petoro aims to carry out its activities as efficiently as possible. The company regularly carries out efficiency and cost-reducing measures, for example by negotiating contracts for services the company uses, implementation and use of new digital tools and systems, as well as simplification of administrative processes and routines.

Petoro's portfolio of production licences has increased steadily since the company was established and at the end of 2020, the portfolio consisted of 194 production licences with SDFI ownership interests. The company has organised its licence follow-up in an efficient manner, such that new production licences the company receives for administration are also included in the follow-up within the same staffing framework. Over the course of the year, Petoro has achieved cost savings by selecting a different accountancy provider and auditing supplier agreements, as well as improved and more efficient processes and routines within finance and administration.

"Petoro will utilise its opportunities for efficient operation by applying digital solutions and digital data sharing"
Management parameters: Initiatives, measures and work initiated by Petoro and demonstrating the effect thereof.

Petoro works continuously to specify how digitalisation can be utilised to conduct the activities as efficiently as possible. The company's goal is to reduce the time spent on routine tasks, streamline reporting and supervisory tasks, as well as improve the company's influence through better insight, analyses and decision documentation.

Petoro continued its efforts within digitalisation in 2020 and applied new digital tools and systems within the company's main areas, including implementation of a new HR system and management system for information security. Petoro has also tested and applied new tools for subsurface analysis, and continued its work to make the company's administrative information more accessible by implementing digital work surfaces. In a year characterised by measures to limit the spread of Covid-19, the company's previous implementation and extensive use of new collaboration solutions allowed for stable, efficient operations in a situation with extensive use of home offices.

Valuation of the SDFI portfolio

The Ministry of Petroleum and Energy conducted a valuation of the SDFI in 2020 with external assistance. As of 1 January 2020, the SDFI portfolio is valued at NOK 1,044 billion.

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Management and control

Kårstø.
Photo: Ole Jørgen Bratland / Equinor

Board of directors of Petoro

Gunn Wærsted

Chair

Year of election: 2014
Other directorships: Chair Telenor; director Nationwide Building Society, director Fidelity Int, director Saferoad
Education: MBA, BI Norwegian Business School.
Career: Executive vice president in DnB responsible for capital management and life insurance, in addition to being chief executive in Vital Forsikring ASA and member of corporate executive management, 1999-2002; CEO, SpareBank 1 Gruppen AS, and head of SpareBank 1 Alliance, 2002-2007. Global head of wealth management, president of Nordea Bank Norge and member of the corporate executive management of Nordea, 2007-2016.

Brian Bjordal

Deputy chair

Year of election: 2016
Occupation: Self-employed
Other directorships: Deputy chair Helse Fonna health trust, chair FKH Stadion A/S
Education: Civil engineer, BSc, Heriot-Watt University, Edinburgh
Career: 1977-1979: Stoltz Røthing (construction); 1979-1984: Taugbøl & Øverland; 1984-2001: Statoil ASA, senior engineer pipelines & structures; head of Pipeline and Platform Inspection, asset owner representative Europipe development, head of early-phase studies Europipe II, Åsgard Transport, Ekofisk by-pass, Franpipe, director of Process plant Kårstø, director Troll / Sleipner area (Development and Production Norway); 2001 - 2015: Gassco AS, President and CEO.

Kristin Skofteland

Director

Year of election: 2020
Occupation: Chief Commercial Officer & Legal Counsel Beyonder AS
Education: Law degree from the University of Tromsø, Attorney and TRIUM Executive MBA
Career: Various positions in Total Norge AS, including Legal Director and then Director of Gas and Oil Sales, Strategy, Business Development and R&D.

Photo: Anne Lise Norheim and Kjetil Alsvik

Trude J. H. Fjeldstad
Director

Year of election: 2015
Occupation: Vice President Portfolio Management New Business in Statkraft AS as well as chief executive in Statkraft Tofte AS
Education: Economics degree, University of Oslo, financial analyst and MBA in corporate finance, Norwegian School of Economics.
Career: Various positions in Statkraft and Hydro including chief executive in Statkraft Treasury Centre SA; secretary to the board, Statkraft; senior gas manager, Statkraft; and portfolio manager for gas in Norsk Hydro.

Hugo Sandal
Director

Year of election: 2017
Occupation: Self-employed.
Education: Civil engineer from NTH (now NTNU) and Degree of Engineer from Stanford University.
Career: Various positions in Saga Petroleum during the period 1976 -1987. Consultant in Railo International from 1987-1989. Chief executive in Sabico AS 1989-1991, primary activities aquaculture and biotechnology. Worked for Deminex, later DEA from 1991, chief executive since 1996 until reaching retirement age in 2016. Director Saga Petroleum 1983-1985. Chair OLF, (now NOROG), 1999-2003. Member of NHO's executive committee 2000-2004.

May Linda Glesnes
Director (elected by the employees)

Year of election: 2020
Occupation: Senior financial adviser, Petoro AS
Education: MSc in Business from University of Edinburgh, Master's degree in finance from the University of Wollongong.
Career: Senior financial adviser in Petoro, senior project economist in Subsea 7, financial adviser at Sparebank1 in Kongsberg.

Ragnar Sandvik
Director (elected by the employees)

Year of election: 2018
Occupation: Senior adviser, Strategic analysis, Petoro AS.
Education: MSc in Business Economics with specialisation in finance from NHH
Career: Broad experience as senior adviser for Strategy, Commercial and Economics in Petoro, as well as consultant in Accenture for change management, process improvement and system implementation.

Management of Petoro

Kjell Morisbak Lund

Acting CEO
Education: MSc marine technology, NTNU.
Career: Broad experience from work in upstream and downstream oil and gas activities. This includes positions as a researcher on marine structures in SINTEF, multiple project, staff and management positions in Statoil - most recently as HSE director for midstream and downstream activities.

Hilde Fey Lunde

Vice president licence and commercial
Education: Civil engineer Petroleum technology from NTNU, Diploma from Institute Français du Petrole (IFP), Paris
Career: Broad experience from the Norwegian and international oil and gas business. Came to Petoro in 2016 with experience from executive positions in DEA/E.ON/E.ON Ruhrgas both in Norway and the UK, most recently as Manager Development and Production. Held a number of positions over 10 years internationally in both upstream and downstream for ConocoPhillips.

Ole Njærheim

Vice president marketing and sales
Education: MBA from the University of Agder, MSc University of Surrey and Certified European Financial Analyst, Norwegian School of Economics (NHH)
Career: Broad experience from financial and commercial consultancy as Managing Director for ECON Consulting Group. Njærheim has also been investment director for IKM Invest AS and Spring Capital AS. He has previously worked for e.g. Lyse Energi and Standard and Poor's/DRI.

Photo: Elisabeth Tønnessen

Jonny Mæland

CFO

Education: MBA from the University of Agder and specialisation in business analytics from the Norwegian School of Economics (NHH) in Bergen

Career: Extensive experience from various positions, both domestically and internationally, in ConocoPhillips since 1998, as well as two years as Finance Manager in Norwegian Energy Company ASA. Comes from the position of Director Financial Reporting and Analysis in ConocoPhillips Norge. Employed by Petoro since 2018.

Kjersti Bergsåker-Aspøy

Vice president legal affairs

Education: Law degree from the University of Bergen and Oslo, specialising in EU competition law

Career: Has more than 15 years of experience from the oil industry and came to Petoro from the position of legal director in DEA Norge AS, a position she had held since January 2017. Before that, she was the legal director of Engie for almost six years and spent more than six years in the legal department at Statoil, where she worked on the Hydro merger, among other things. Before joining Statoil in 2005, she was both an attorney and deputy judge. Bergsåker Aspøy has also been the head of the Legal Committee in Norwegian Oil and Gas.

Heidi Iren Nes

Vice president organisation and strategy

Education: MSc in business economics, Norwegian School of Economics, Bergen.

Career: Started in Petoro's finance department in 2008 after a few years in Subsea 7 Norway. Then transitioned into a new role in Petoro's marketing department from 2013 to 2019. Was also an employee representative on the Petoro board from 2016 to 2018.

Corporate governance

The State's Direct Financial Interest in petroleum activities on the Norwegian continental shelf (SDFI) represents one-third of Norway's oil and gas reserves. Petoro acts as steward for substantial assets on behalf of the Norwegian state. This requires good governance that safeguards expectations from the owner, our peers and society at large.

The Petoro board adheres to the requirements for governance in the public sector specified in "Regulations on Financial Management in Central Government" and in standards for good corporate governance. The board adheres to the state's principles for good corporate governance with particular attention devoted to the state's expectations for the companies, as expressed in the white paper Meld. St. 8, 2019-2020 "The state's direct ownership in companies. Sustainable value creation". The board also observes those sections of the Norwegian code of practice for corporate governance regarded as relevant to Petoro's business and to the frameworks established by its form of organisation and ownership. A report is provided below on the main topics with relevance for Petoro AS.

The board emphasises good corporate governance and management in order to ensure that the SDFI portfolio is managed in a way which maximises financial value creation within established frameworks, and creates a basis for confidence in the company by the owner, the employees, the petroleum industry and other stakeholders, as well as society at large. The board prepares clear goals, strategies and a risk profile for the company, and enterprise management in Petoro is based on balanced management by objectives with established goals, which are set annually and support the company's strategy. The company's management system is also tailored to the distinctive nature of the enterprise and contains governing documentation that shall contribute to ensure that Petoro realises its goals and strategies and carries out its primary tasks in an efficient and systematic manner within the given framework. The company's privacy policy is included in the management system. The company reports achieved results throughout the year to its owner and has regular meetings with the owner over the course of the year.

Petoro's values base is integrated in its business activities. Petoro's values - dynamic, responsible, inclusive and bold – are the foundation that will define how the employees work and thereby support the company's goals and strategy.

Guidelines for exercising corporate social responsibility are stipulated by the company's board and are an integrated part of Petoro's activities, strategy and values. Petoro reports on the follow-up of its corporate social responsibility (CSR) in a separate chapter of this annual report.

Activities

Petoro's main duties are specified in Chapter 11 of the Petroleum Act and the company's articles of association, and are defined in more detail by the Ministry of Petroleum and Energy in the annual letter of assignment.

The objective of the company is, on behalf of the state and at the expense and risk of the state, to be responsible for the commercial aspects related to the State's Direct Financial Involvement in petroleum activities on the Norwegian continental shelf (NCS), and associated activities.

The company has three main duties:

- Management of the state's participating interests in the joint ventures where the state has such interests at any given time.
- Monitoring Equinor's marketing and sale of the petroleum produced from the state's direct participating interests, in line with Equinor's marketing and sale instructions.
- Financial management for the state's direct participating interests.

Petoro's operations are subject to the Norwegian Limited Liability Companies Act and the Norwegian Petroleum Act, as well as the Regulations on Financial Management in Central Government — including the rules on appropriations and accounting. Its management of the SDFI's activities is governed by the Ministry of Petroleum and Energy's instructions for financial management of the SDFI and the annual letter of assignment. In addition, the company's articles of association, strategy, values and guidelines on business ethics, including its guidelines for exercising the company's CSR, provide guidance for exercising Petoro's activities.

Petoro's strategy takes a point of departure in the company's vision and overall goals. The company's vision is to be a driving force on the Norwegian shelf, and its objective is to create the greatest possible value and achieve the greatest possible revenue for the state from SDFI. The strategy is prepared with a point of departure in the SDFI portfolio and changes in its surroundings. Safety and climate requirements constitute an important framework for the strategy, and Petoro will work to ensure that the oil and gas industry on the Norwegian shelf remains a leader in facing the climate challenges, in line with the roadmaps and goals the industry has set for the Norwegian shelf.

Each primary task is broken down into defined strategic areas and strategic prioritisations. Strategic areas designate which areas are most important to influence in order to realise paramount goals, and strategic prioritisations elaborate on which key measures must be developed to realise the strategy. Maturing new wells, drilling efficiency, continuous optimisation of the recovery strategy, cost-effective field development and further development of existing fields and infrastructure, as well as efficient operations, have been selected as the company's strategic priorities.

Digitalisation is a strategic priority across the company's primary tasks. This applies both for the use of digital solutions in joint ventures, internally in the company and between Petoro and other companies. The company has prepared a dedicated digital strategy plan. Beyond this, a separate strategy has been established for sustainability and climate which intersects the three main tasks, taking into consideration that the company's measures and decisions to an increasing extent must account for changed market needs as a result of changes in climate policy, customer needs and customer preferences.

The company is the licensee for the state's portfolio on the NCS, with the same rights and obligations as other licensees. The scope of the SDFI portfolio gives Petoro the overview and insight to be a driving force on the Norwegian Shelf. The company works to reinforce value creation opportunities with emphasis on long-term business development through focused follow-up, supported by in-depth professional commitment. Petoro's follow-up of activities in the joint ventures is differentiated on the basis of its capacity and the commitment required to perform its role. The company endeavours to achieve good governance in the joint ventures, and cooperates with other operators and partners on further development of good performance-management processes.

Pursuant to the agreements for petroleum activities, the commercial information Petoro receives is subject to confidentiality. The company has internal instructions for dealing with inside information received by Petoro. These apply to the company's directors, employees, auditor, advisers or others in a relationship with the company who receive information that is not publicly known and/or expressly defined as "inside information" within the meaning of the Norwegian Securities Trading Act. Information that may have an impact on the stock market must be treated as "inside information".

A special system has also been established for approving external directorships held by employees. Employees must ensure that their ownership of shares does not create any conflict between their personal interests and management of the state's participating interests or the interests of Petoro AS. Senior employees (CEO and employees who report directly to the CEO) are prohibited from owning shares in licensee companies.

Petoro presents separate accounts for SDFI portfolio transactions, which form part of the government's accounts. Cash flows generated from the portfolio are transferred to the state's own accounts with Norges Bank.

Share capital and dividends

Petoro has a share capital of NOK 10 million and is wholly owned by the Norwegian state. The state guarantees the company's liabilities. The limited company's own operating costs are covered by annual appropriations over the fiscal budget. The operating contribution is presented as operating revenue in the limited company's accounts. The company receives appropriations to meet its costs and does not pay a dividend. Shares in the company cannot be traded or transferred.

Equal treatment of shareholders

Shares in Petoro AS are owned by the state and the company has no personal shareholders.

The state employs a common ownership strategy to maximise the overall value of its ownership interests in Equinor ASA as well as the state's own oil and gas interests. On this basis, Equinor ASA undertakes the marketing and sale of the state's petroleum pursuant to a marketing and sale instruction approved by the general meeting of Equinor ASA. Through Petoro AS' articles of association, Chapter 11 of the Petroleum Act and the marketing and sale instruction for Equinor ASA, the government has given Petoro responsibility for monitoring that Equinor ASA performs its duties in accordance with this instruction.

A duty of commercial confidentiality applies to information Petoro receives through its monitoring of Equinor ASA's marketing and sales and in its work on the budget and accounts relating to the marketing and sale of the state's petroleum. The company's ethical guidelines emphasise that recipients of such confidential information must use it only for its intended purpose, and must not trade in Equinor ASA's securities for as long as the information is not publicly known.

General meeting

The Ministry of Petroleum and Energy, in the person of the minister, represents the government as sole owner and serves as the company's general meeting and highest authority. Notice of general meetings is issued in accordance with the provisions of the Norwegian Limited Liability Companies Act relating to state-owned companies. The annual general meeting is held before the end of June each year. Guidelines for issues to be considered by the company's general meeting are laid down in the Petroleum Act. Owner decisions and resolutions are adopted at the general meeting, which also elects the company's external auditor.

Election of directors

The company is subject to the state's procedures for selecting directors. Directors are elected by the general meeting, which also determines the remuneration of all directors. Directors elected by and from among the employees serve two-year terms.

Composition and independence of the board

Petoro's board comprises seven directors, five of whom are elected by the general meeting. Two are elected by and from among the company's employees. Four of the directors are women. Directors are elected for two-year terms and have no commercial agreements or other financial relationships with the company apart from the directors' fees established by the general meeting and contracts of employment for the directors elected by the employees. All shareholder-elected directors are independent of the owner.

The board considers its composition in terms of expertise, capacity and diversity to be appropriate for following up the company's goals and assignments. Each director and the board as a collective body seek to strengthen their expertise in various ways on a continuous basis. These include participation in courses and conferences and generally following developments within the business area.

Work of the board

The board has overall responsibility for the management of Petoro, including ensuring that appropriate management and control systems are in place, and for exercising supervision of the day-to-day conduct of the company's business. The work of the board is based on instructions which describe its responsibilities and mode of working. The board met 8 times in 2020.

As an appendix to the instructions for its work, the board has adopted supplementary provisions for matters it shall consider. An annual schedule of meetings has been established for the work of the board, with the emphasis on considering topical commercial issues and following up strategies, budgets and interim results. The board utilises a balanced scorecard system as a key instrument for measuring results.

The board considers major investment decisions within the SDFI portfolio, follow-up and consideration of activities in the joint ventures, and monitoring of gas sales — including an assessment of the overall risk picture. The Board has chosen to organise its work related to compensation through a sub-committee comprising two of the shareholder-elected directors, one of whom is the deputy chair. No other sub-committees have been established. In the event of conflicts of interest, the established practice has been for the director concerned to abstain from the board's consideration of the matter. Conflicts of interest are a fixed item on the agenda for the Board's meetings and consideration of matters.

An annual self-assessment is conducted by the board, which encompasses an evaluation of its own work and mode of working, as well as its collaboration with company management. The self-assessment for 2020 is complete. The board reviewed the company's CSR, business ethics guidelines and board instructions.

Risk management and internal control

Risk management in Petoro is a continuous process where management and the board identify and prioritise relevant risks for Petoro's goal attainment. The board undertakes an annual review of the company's most important risk areas and internal control. In this review, the board emphasises the risks and opportunities that Petoro itself can influence through its own measures within the frameworks available to it.

The most important operational risks are followed up in the management committees for the prioritised joint ventures. Petoro works continuously on risk management in line with principles for integrated management and developments in the company's risk picture.

Identification and management of risk and risk exposure make up part of Petoro's business processes. The company works with risk management to handle matters that could affect its ability to attain specified targets and to implement chosen strategies, as well as matters that may affect its ability to submit accurate accounts. Risk management is integrated in Petoro's performance management system. Climate risk was clarified in the company's governance in 2020.

The company's internal control shall ensure that its activities are carried out in accordance with the company's governance model and compliance with regulatory requirements. The internal control function forms an integrated element in Petoro's management processes, and is responsible for ensuring that integrity and completeness are assessed for all management information and that the management system is effective.

The framework for internal control has been formulated to provide a reasonable level of assurance that goals will be met in the following areas:

- Purposeful and cost-effective operations
- Reliable reporting of accounts
- Compliance with applicable statutes and regulations

Guidelines have been adopted by Petoro to facilitate internal reporting of improprieties in its activities. Whistleblowing is also included in the company's business ethics guidelines. Whistleblowers who want to preserve their anonymity or who do not wish to raise the matter with their superior for other reasons, can notify the internal auditor. The company's values and business ethics guidelines clarify principles that shall govern the company's commercial operations and employee conduct.

Remuneration of the board and senior employees

The general meeting determines the remuneration of directors. The board determines the remuneration of the CEO. The CEO determines the remuneration of other members of the company's senior management. The board's guidelines for the remuneration of senior employees in Petoro comply with the framework specified in the Guidelines on pay and other remuneration for senior executives in wholly or partly state-owned enterprises and companies, which came into force on 13 February 2015. In 2020, the management team consisted of 7 people, including the CEO. Details of the actual remuneration paid are provided in a note to the annual accounts.

Information and communication

The Petoro board has established a communication strategy to ensure that an open dialogue is pursued both in-house and externally, so that the company's employees and other stakeholders are well informed about its business activities.

The company publishes information via its website, including press releases as well as the interim and annual reporting of its results. Petoro's annual report presents a broad description of the company's operations, as well as the directors' report and the annual accounts. The board's presentation of the company's CSR is included in this annual report.

Auditor

The Office of the Auditor General (OAG) is the external auditor for the SDFI portfolio pursuant to the OAG Act. The OAG verifies that the company's management of the portfolio accords with the decisions and assumptions of the Storting (parliament), and audits the annual accounts for the SDFI portfolio. On the basis of this work, the OAG submits its report in a final auditor's letter.

The board has also appointed PwC to conduct a financial audit of the SDFI accounts as part of Petoro's internal audit process. PwC conducts a financial audit of the portfolio's accounts and submits an independent statement. This statement details whether the annual accounts pursuant to the accounting principles and on a cash basis were rendered pursuant to the rules of the Accounting Act and rules for state accountancy on a cash basis. The contract with the external auditor company covers both financial auditing of the SDFI and Petoro's internal auditor function. In this role, the company audits the internal control systems in accordance with the instructions and an annual plan approved by the board. The internal auditor handles the company's function for receiving notices.

The general meeting has chosen KPMG AS as the external auditor for Petoro AS.

Corporate social responsibility

Petoro's CSR presentation is based on guidelines for exercising CSR adopted by the company, and is tailored to its activities as a licensee on the Norwegian Continental Shelf (NCS). CSR comprises the responsibilities companies are expected to fulfil for people, society, climate and the environment affected by their activities. The work on corporate social responsibility is an integral part of the board's efforts. Petoro's funding for performing its management duties and for running the company is provided through appropriations from the government. Pursuant to its mandate, Petoro will not provide monetary support for public welfare purposes.

The owner's expectations as regards corporate social responsibility are expressed in the white paper on state ownership, Meld. St.8 (2019-2020) "The state's direct ownership in companies. Sustainable value creation." The board's presentation below, tailored to Petoro's role and mandate, is based on the owner's expectations and the company's guidelines for CSR.

Petoro undertakes to pursue its business activities in an ethically prudent, sustainable and responsible manner. The board emphasises that the company's CSR forms an integral part of its activities and strategies, and is reflected through its values. These include dynamic, responsible, inclusive and bold. The company's guidelines on business ethics support these values.

Petoro exercises its activities in accordance with good corporate governance. This applies to its participation in the individual production licences and as a partner in the joint ventures. The joint venture agreements for the production licences include governance requirements for the operators. Petoro exercises its role through active participation in management committees and sub-committees on the basis of a prioritisation of available resources and where it can make a difference. Follow-up of the state's equity interests in all joint ventures is incorporated in Petoro's management system.

The HSE regulations establish requirements for Petoro as a licensee on the shelf and participant in the individual onshore plants on behalf of the state as owner. The key elements are the requirement to have one's own management system and the supervisory duty. By exercising its supervisory duty, Petoro contributes to continuous improvement of HSE results for fields and facilities where Petoro is a licensee. Petoro manages a large and diverse portfolio, and prioritises its level of follow-up on the various licenses/fields/onshore facilities based on commercial criteria, included activities and results related to HSE. The portfolio is subject to an HSE assessment as part of the company's annual planning process. The assessment is conducted based on the historical development in HSE results, developments in the installation's technical condition (TIMP, uptime), changes in operator situation, as well as activities as described in the work programme for the upcoming years which affect the risk picture. Annual major accident workshops are an important part of the joint ventures' safety work. Petoro also participates every year in HSE management visits on selected fields and installations.

Petoro exercises its activities in a sustainable manner which minimises negative impact on nature and the environment. Petoro recognises that climate challenges make it necessary to restrict man-made climate impact. The company wants to contribute to ensuring that the oil and gas industry on the Norwegian Shelf leads the way in addressing climate challenges. Climate is an integrated part of Petoro's governance. Petoro will work to ensure that a broad spectrum of effective climate solutions and new technology are considered in selected licenses.

Petoro is a licensee in multiple licenses which are planning electrification projects to contribute toward significant reductions in greenhouse gas emissions from the Norwegian shelf. This includes Oseberg, Snøhvit (Melkøya), Troll B and C, Kårstø and the Halten Bank area. An offshore wind farm for partial electrification of Gullfaks and Snorre is an important project under implementation.

Petoro reports emissions to the air and discharges to water from the portfolio in a separate chapter of its annual report on the external environment, based on figures obtained from the operators.

Petoro works to increase the company's competence within sustainability and climate e.g. through a skills development measure for all employees in autumn 2020. The company also contributes to creating environmental awareness among its employees through an incentive scheme to encourage increased use of public and environmentally friendly transport. Petoro emphasises efficient ICT solutions and good communication systems that can replace travel to meetings with videoconferencing. The company's investment in Office 365 has yielded positive effects for collaboration in teams internally as well as externally while the offices were shut down and restrictions were in effect on participation in external meetings and travel in 2020 as a result of Covid-19. Lessons learned from this period will be captured.

Petoro does not tolerate any form of corruption or other improprieties, and employees are not permitted to accept remuneration from others in their work for the company. Guidelines on business ethics define what is regarded as corruption, and the consequences of breaching these guidelines are addressed specifically. No breaches of these guidelines have been recorded.

Petoro's employees shall not accept or offer unlawful monetary gifts or other benefits to secure an advantage for themselves, for Petoro or for others. Employee directorships and secondary employment must be approved by the CEO in order to avoid possible conflicts of interest. Guidelines on business ethics detail the consequences of breaches. No breaches of the guidelines have so far been recorded.

Petoro's employees are obliged to follow the company's guidelines on business ethics. The company's guidelines on business ethics are publicly available. Their purpose is to clarify principles which will govern the company's commercial operations and employee conduct. All employees sign the company's ethical guidelines each year. These guidelines set requirements for the individual to exercise conduct that does not raise questions, based on the requirement to maintain high ethical standards. It follows from the guidelines that the individual is expected to contribute to an inclusive work environment. The individual has a shared responsibility to ensure a good environment in terms of health and safety. The guidelines also address matters such as the duty of confidentiality, potential conflicts of interest and questions linked to accepting gifts and services. Senior employees (CEO and employees who report directly to the CEO) are prohibited from owning shares in licensee companies. Petoro has established requirements for information and ICT security in its activities.

Petoro's employees discharge their duties with a high level of integrity and honesty, and show respect for other people, public authorities and business contacts, as well as health, safety and the environment. Petoro aims to maintain a sound psychosocial and physical working environment for all employees. The company shall have a corporate structure that promotes good results within health, safety and the environment. Petoro shall actively encourage continuous HSE improvement and believes that all incidents can be prevented. The PetoroAktiv employee association organises a number of social, cultural and athletic activities for employees. The various events are well-attended. The pandemic has limited the opportunity to organise activities in 2020.

Petoro does not discriminate on the basis of gender, religion, national or ethnic affiliation, social group or political views. Petoro emphasises equal opportunities for professional and personal development, pay and promotion. The company facilitates a flexible customising of working hours. When determining wages and in wage negotiations, Petoro is conscious that men and women must be treated equally. No systematic or significant differences exist between male and female pay in the company. The company has a number of employees with diverse cultural and ethnic backgrounds. Working conditions at Petoro are customised to allow employment of people with disabilities. The company maps the status of equal opportunities in the company on an annual basis.

The company has routines for reporting improprieties. The board encourages the company's employees to raise ethical issues and to report any breaches of the regulations they encounter. The internal audit function is an independent whistleblowing channel with the right and duty to report to the board. The right to report improprieties in the enterprise also comprises consultants who carry out assignments on behalf of Petoro.

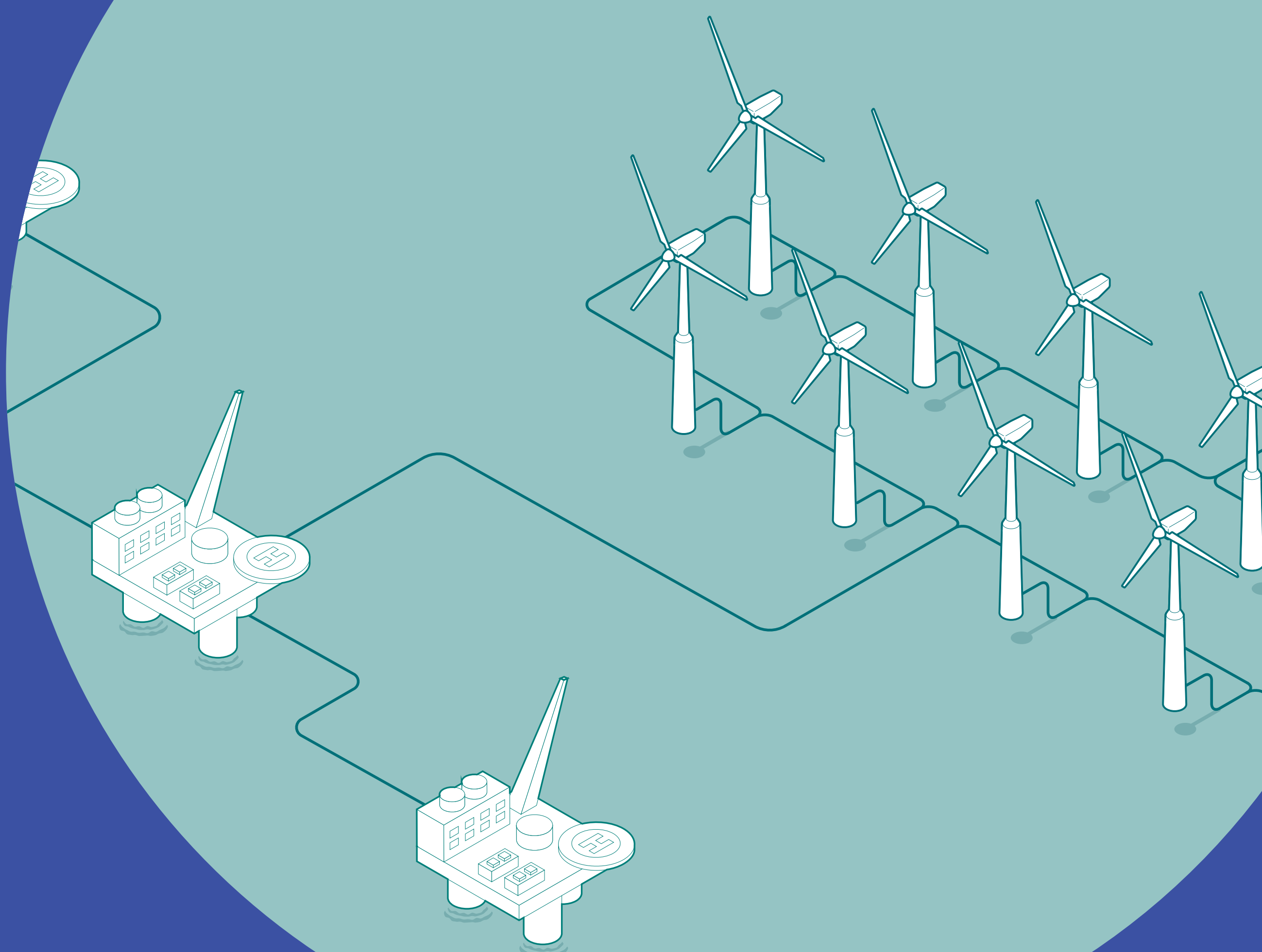
Petoro expects its partners and contractors/suppliers to maintain the same ethical standards set for its own business operations. Petoro's standard contractual terms incorporate requirements that contractors/suppliers must execute the assignment with a high level of professionalism and in accordance with high ethical standards. An extract from the company's guidelines on business ethics is incorporated into all Petoro's standard contracts as a normative standard. The management committee in each joint venture is responsible for considering and deciding issues related to the procurement and contract strategy.

5

Outlook

Outlook is described in the Directors' report, Chapter 1.2.

Hywind Tampen floating wind farm



Hywind Tampen floating wind farm
Illustration: Equinor

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Figures for 2020

Annual accounts SDFI and Petoro AS

Compliance report for the SDFI annual accounts

Purpose

Since its establishment in 2001, Petoro has served as the licensee for the state's participating interests in production licences, fields, pipelines and land-based facilities. Petoro is charged with managing the SDFI portfolio on the basis of sound business principles. As of the end of 2020, the portfolio consisted of 194 production licences, 6 fewer than at the beginning of the year. In January 2020, the Ministry of Petroleum and Energy completed its Awards in Predefined Areas (APA 2019), where 14 production licenses were awarded with SDFI participation. Twenty production licences were relinquished in 2020.

Confirmation

The annual accounts are presented in accordance with the Provisions on Financial Management in Central Government, circular R-115 from the Ministry of Finance, and requirements in the instructions on financial management of the SDFI in Petoro, with the exceptions granted for the SDFI. The board hereby confirms that the annual accounts, which comprise the appropriation and capital accounts prepared on a cash basis, provide a true and fair view in accordance with the cash basis. The general ledger accounts report presents accounting figures for the SDFI as reported to the government accounts in accordance with the standard chart of accounts for state-owned undertakings.

The board confirms that the company accounts have been prepared in accordance with the Accounting Act and Norwegian generally-accepted accounting principles (NGAAP), and provide a true and fair view of the SDFI's assets, obligations and financial results at 31 December 2020.

Assessment of significant factors

Appropriation and capital accounts

In accordance with the supplemental letter of assignment dated 15 December 2020, the SDFI's appropriation for investments[1] totalled NOK 28.0 billion. The appropriation for operating income[2] totalled NOK 60.2 billion. The appropriation for interest on the state's capital[3] totalled NOK 2.5 billion. Operating income in accordance with the cash basis is affected first and foremost by the price of oil and gas and the volume of the SDFI's production sold. Equinor handles marketing and sale of SDFI's products through the marketing and sale instructions issued by the Ministry of Petroleum and Energy.

The general ledger accounts report on the cash basis shows net reported revenues including financial income totalling NOK 113.7 billion in 2020, compared with NOK 153.0 billion in 2019. The revenue was greatly affected by lower gas and liquids prices in 2020, partially offset by higher oil sales. Expenses reported in the appropriation accounts comprise payments of NOK 27.6 billion as investments and NOK 28.0 billion as operating expenses. Payments in 2019 amounted to NOK 26.3 billion related to investments and NOK 30.5 billion related to operations. Payments to operations were primarily related to the operation of fields and facilities, processing and transport costs, as well as exploration and field development expenses. This is in addition to payments of financial expenses. Depreciation of fields and facilities amounted to NOK 22.4 billion in 2020, compared with NOK 22.7 billion the previous year.

The SDFI accounts include a number of significant estimates which are subject to uncertainties and rely on discretionary assessments. These e.g. include capitalised exploration costs, estimates of reserves as the basis for depreciation, decommissioning expenses based on estimates for costs to be incurred far into the future, and assessment of impairment charges on tangible fixed assets.

Net cash flow to the state from SDFI totalled NOK 59 billion in 2020, NOK 37 billion lower than in 2019. This decline was mainly caused by lower prices for gas and liquids, in part offset by increased liquids production as a result of Johan Sverdrup phase 1 starting up in October 2019, as well as a positive change in working capital.

Total production reached 988 thousand barrels of oil equivalent per day (kboed), an increase of 24 kboed compared with the previous year.

Gas production amounted to 98 million standard cubic metres (mill. Sm^3) per

1 Ch./item 2440.30
2 Ch./item 5440.24
3 Ch./item 5440.80

day, which is on par with the previous year. Gas extraction was higher on Troll than in 2019 due to price optimisation, but this was offset by lower production from particularly Snøhvit as a result of the fire in late September, as well as from Åsgard. The average realised gas price was NOK 1.25, compared with NOK 1.92 per Sm^3 the previous year.

Liquids production came to 374 kboed, 24 kboed (7%) higher than the previous year. This increase was caused by Johan Sverdrup starting up at the end of 2019. Excluding production from Johan Sverdrup, production declined by 51 kboed (14%), mainly as a result of natural production decline on multiple fields, as well as reduced production on the fields included in the Government's revised production permits. The average realised oil price was USD 40, compared with USD 65 per barrel the previous year. The price drop in USD was somewhat offset by a weaker NOK, meaning that the achieved oil price measured in NOK was 376, compared with NOK 572 per barrel last year.

Costs incurred for investment totalled NOK 28 billion, just under NOK 1 billion higher than the year before. The increase in investment was mainly caused by higher drilling activity on multiple fields compared with the previous year. Development investments have been reduced due to the completion of Johan Sverdrup phase 1 in 2019.

The financial result for 2020 was a net income of NOK 48 billion, NOK 49 billion lower than the previous year. This decline was mainly caused by lower revenue as a result of reduced prices for oil and gas, and impairment on fixed assets in the first and fourth quarters. The reduction was partially offset by increased oil production from Johan Sverdrup.

Production costs ended at NOK 14 billion, 0.3 billion higher than the previous year. However, production costs in 2019 were reduced by 1.3 billion as a result of the final settlement in the COSL case. This means that costs in 2020 compared with 2019 were actually reduced by NOK 0.9 billion. The decline was mainly caused by reduced electricity costs, as well as somewhat lower maintenance expenses in connection with prioritisations made as a result of Covid-19.

The book value of assets at 31 December 2020 was NOK 256 billion. The assets mainly consist of fixed assets related to field installations, pipelines and onshore plants, as well as current debtors. Equity at year-end came to NOK 151 billion. Overall debt amounted to NOK 105 billion, of which 84 billion was related to estimated future removal obligations.

The portfolio's estimated remaining reserves totalled 5,045 million boe at the end of 2020, down by 290 million boe from the year before. Production in 2020 came to 362 million boe. The reserve growth of 72 million boe was primarily the result of the decision to develop Breidablikk. This yields a reserve replacement rate for 2020 of 20 per cent, compared with 40 per cent in 2019.

Additional information

The Office of the Auditor General (OAG) is the external auditor, and approves the annual accounts for the SDFI. On completing its annual audit, the OAG issues a final audit letter (report) which summarises the conclusion of its audit work. The result of the audit will be reported by 1 May 2021.

The Board has appointed PwC to conduct a financial audit of the SDFI accounts as part of Petoro's internal audit process. PwC submits its audit report to the Petoro AS board regarding the annual accounts pursuant to the accounting principles on a cash basis and in accordance with international auditing standards. PwC's audit work forms the basis for the OAG's review of the annual accounts.

Stavanger, 4 March 2021

Gunn Wærsted
Chair

Brian Bjordal
Deputy chair

Trude J. H. Fjeldstad
Director

Kristin Skofteland
Director

Hugo Sandal
Director

Ragnar Sandvik
Director,
elected by the employees

May Linda Glesnes
Director,
elected by the employees

Kjell Morisbak Lund
Acting CEO

Accounts on cash basis, SDFI
Note on accounting principles for the accounts on a cash basis

The annual accounts for the SDFI have been prepared and presented in accordance with detailed guidelines stipulated in the Provisions on Financial Management in Central Government ("the Provisions"). The accounts accord with the requirements in Section 3.4 of the Provisions and more detailed provisions in circular R-115 of December 2019 from the Ministry of Finance, with the exceptions that apply for the SDFI.

The presentation of reporting to the appropriation accounts and general ledger accounts is prepared on the basis of Section 3.4.2 of the Provisions, the basic principles for the annual accounts:

a) the accounting year matches the calendar year
b) the accounts present all expenses and revenues for the accounting year
c) the accounts are prepared in accordance with the cash basis.
d) expenses and revenues are shown gross in the accounts

The reporting presentations of the appropriation accounts and general ledger accounts are prepared on the basis of the same principles, but are grouped in different charts of accounts. These principles correspond with requirements in Section 3.5 of the Provisions on how enterprises shall report to the government accounts. The item "net reported to appropriation accounts" is identical in both presentations.

Pursuant to the requirements in Section 3.7.1 of the Provisions, the enterprise is affiliated with the government's group account scheme for state-owned companies in Norges Bank.

Appropriation reporting

The presentation of reporting to the appropriation accounts comprises an upper section with the appropriation reporting and a lower section, which shows the enterprise's listed balances in the capital accounts. The appropriation reporting presents accounting figures reported by the enterprise to the government accounts. These are posted in accordance with the chapters and items in the appropriation accounts the enterprise has at its disposal. The column "Total allocation" shows what the enterprise has at its disposal in the letter of assignment for each government account (chapter/item). The presentation also shows all financial assets and liabilities entered against the enterprise in the government's capital accounts.

The SDFI receives estimated appropriations. No authorisations have been received or issued to charge from/to chapters/items in other undertakings.

General ledger accounts report

The general ledger accounts report is formatted with an upper part which shows what has been reported to the government accounts in accordance with the standard chart of accounts for state-owned enterprises and a lower part which presents assets and liabilities included in the open account with the state. The general ledger accounts report presents accounting figures reported to the government accounts in accordance with the standard chart of accounts for state-owned enterprises. The report is not formatted in accordance with the method recommended by the Norwegian Government Agency for Financial Management (DFØ), but incorporates adjustments which reflect special conditions for public-sector enterprises.

Accounts on cash basis, SDFI Appropriation accounts

Presentation of appropriation accounts reporting 31 Dec. 2020 - Figures in NOK

Expense chapter	Chapter name	Category	Description	Total allocation	2020 accounts	(Increase)/ decrease in expenses
2440	Expenses	30	Investments	28,000,000,000	27,600,836,314	399,163,686
5440	Expenses	24.02	Operating expenses	28,400,000,000	28,063,436,976	336,563,024
5440	Expenses	24.03	Exploration and field development expenses	2,000,000,000	1,742,839,038	257,160,962
5440	Expenses	24.04	Depreciation	22,700,000,000	22,438,630,777	261,369,223
5440	Expenses	24.05	Interest	2,500,000,000	2,474,387,043	25,612,957
Total expensed				**83,600,000,000**	**82,320,130,148**	**1,279,869,852**

Revenue chapter	Chapter name	Category	Description	Total allocation	2020 accounts	Excess revenue and lower revenue (-)
5440	Revenues	24.01	Operating revenue	115,800,000,000	113,793,972,156	(2,006,027,844)
5440	Expenses	30	Depreciation	22,700,000,000	22,438,630,777	(261,369,223)
5440	Expenses	80	Interest on fixed capital	2,500,000,000	2,483,311,015	(16,688,985)
5440	Expenses	85	Interest on open accounts	0	-8,923,972	(8,923,972)
Total recognised				**141,000,000,000**	**138,706,989,977**	**(2,293,010,023)**
5440		**24**	**Operating profit**	**60,200,000,000**	**59,074,678,322**	**(1,125,321,678)**
Net reported to appropriation accounts					**(56,386,859,828)**	

Capital accounts

0677.03.04693	Settlement account Norges Bank - paid in	102,961,762,019	
0677.03.08710	Settlement account Norges Bank - paid in	15,572,918,850	
0677.04.05015	Settlement account Bank of Norway - paid out	(59,823,318,742)	
	Change in open accounts	(2,324,502,299)	
Sum rapportert		0	

Holdings reported to the capital accounts (31 Dec)

Account	Text	2020	2019	Change
	Open accounts with the Treasury	(1,334,069,923)	(3,658,572,222)	2,324,502,299

Accounts on cash basis, SDFI
Appropriation accounts

NOTE A Explanation of total allocation

Type and category	Transferred from last year	Allocation for the year	Total allocation
2440.30		28,000,000,000	28,000,000,000
5440.24.02		28,400,000,000	28,400,000,000
5440.24.03		2,000,000,000	2,000,000,000
5440.24.04		22,700,000,000	22,700,000,000
5440.24.05		2,500,000,000	2,500,000,000
5440.24.01		115,800,000,000	115,800,000,000
5440.30		22,700,000,000	22,700,000,000
5440.80		2,500,000,000	2,500,000,000
5440.85		0	0
5440.24		60,200,000,000	60,200,000,000

NOTE B Explanation for authorisations used and calculation of possible amount to be transferred to next year

Not relevant for the SDFI, which receives estimated appropriations

Accounts on cash basis, SDFI
Capital accounts – specified

SDFI capital accounts 2020 – Figures in NOK

	Items			
	Open account government			1,334,069,923
	Fixed assets before impairment		199,949,456,833	
	Impairment		(5,736,540,144)	
	Fixed asset account		194,212,916,689	194,212,916,689
Total	**Total**			**195,546,986,612**
	Open account state at 1 Jan. 2020	(3,658,572,222)	(3,364,091,145)	
	Total expenses	27,600,836,314		
	Total revenue	(83,987,696,142)		
	Cash flow	(56,386,859,828)	(56,386,859,828)	
	Net transfer to the state	58,711,362,127	96,184,113,331	
Open account state at 31 Dec. 2020			**(1,334,069,923)**	**(1,334,069,923)**
	Fixed assets 1 Jan. 2020		(194,787,251,296)	
	Investments for the year		(27,600,836,314)	
	Depreciation for the year		22,438,630,777	
	Impairment		5,736,540,144	
	Fixed assets 31 Dec. 2020		(194,212,916,689)	(194,212,916,689)
Total				**(195,546,986,612)**

Stavanger, 4 March 2021

Gunn Wærsted
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Brian Bjordal
Deputy chair

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Director

Kristin Skofteland
Director

Hugo Sandal
Director

Ragnar Sandvik
Director,
elected by the employees

May Linda Glesnes
Director,
elected by the employees

Kjell Morisbak Lund
Acting CEO

Accounts on cash basis, SDFI
General ledger accounts report

Specification of the general ledger accounts report 31. Dec. 2020		
	2020	**2019**
Operating revenues reported to the appropriation accounts		
Sales and lease payments received	101,154,121,164	134,844,137,426
Other amounts paid in	12,539,270,486	18,123,858,820
Total paid in from operations	**113,693,391,649**	**152,967,996,246**
Operating expenses reported to the appropriation accounts		
Depreciation	22,438,630,777	22,673,976,264
Other disbursements for operations	28,027,059,450	30,539,912,130
Total disbursed to operations	50,465,690,227	53,213,888,394
Net reported operating expenses	**(63,227,701,422)**	**(99,754,107,852)**
Investment and financial income reported to the appropriation accounts		
Financial income paid in	100,580,507	2,137,757,718
Total investment and financial income	**100,580,507**	**2,137,757,718**
Investment and financial expenses reported to the appropriation accounts		
Paid out for investment	27,641,882,871	26,339,149,222
Paid out for share purchases	(41,198,749)	(10,150,360)
Paid out for financial expenses	4,253,755,799	4,517,480,126
Total investment and financial expenses	**31,854,439,921**	**30,846,478,988**
Net reported investment and financial expenses	**31,753,859,414**	**28,708,721,270**
Collection activity and other transfers to the state		
Contribution management and other transfers from the state		
Revenues and expenses reported under common chapters		
Depreciation (see Ch. 5440 revenue)	(22,438,630,777)	(22,673,976,264)
Interest on the government's capital and open accounts with the Treasury (see Ch. 5440 revenue)	(2,474,387,043)	(2,759,231,562)
Net reported expenses under joint chapters	**(24,913,017,820)**	**(25,433,207,826)**
Net expenses reported to the appropriation accounts	**(56,386,859,828)**	**(96,478,594,408)**

Accounts on cash basis, SDFI
General ledger accounts report

Overview of open accounts with the Treasury

Assets and liabilities*	**2020**	**2019**
O/U call	(2,810,556,994)	1,538,205,263
AP nonop	561,316,837	302,058,421)
AR nonop	(139,103,151)	152,439,303
Inventory nonop	29,727,085	19,026,800
Prep exp nonop	(97,139,650)	(110,411,404)
Working cap - nonop	132,837,112	(972,658,814)
VAT	(1,583,538)	(30,061,650)
Agio	(0)	0
Total change open accounts with the Treasury	**(2,324,502,299)**	**294,481,077**

*)
O/U call - prepayments calculated net of JV cash call and settlement from operators
AP nonop - accounts payable in settlements from operators
AR nonop - accounts receivable in settlements from operators
Inventory nonop - inventory in settlements from JV operators
Prep exp nonop – prepaid expenses to operators - settlements
Working cap - nonop - primarily accruals in monthly settlements from operators
VAT - balance of VAT payments
Agio - rounding-off related to currency translation (agio/disagio)

Comment on change in open account from 2019 to 2020:
The change was mainly caused by reduced net advances in the licenses. However, this is partially offset by a reduction in provisions in the licenses and a reduction in amounts owed in settlement from operators.

Accounts based on accounting act
Income statement pursuant to NGAAP - SDFI

All figures in NOK million	Notes	2020	2019
OPERATING REVENUE			
Operating revenue	3, 4, 9, 11	**108,940**	**153,395**
Total operating revenue		**108,940**	**153,395**
OPERATING EXPENSES			
Exploration expenses		**1,368**	**1,614**
Production expenses	5	**14,074**	**13,690**
Transport and processing expenses	5	**10,247**	**9,686**
Depreciation and impairment	2	**30,395**	**26,050**
Costs gas purchases, storage and administration	5, 9, 10	**3,962**	**5,405**
Total operating costs		**60,045**	**56,445**
Operating profit		**48,895**	**96,950**
FINANCIAL ITEMS			
Financial income		**2,941**	**1,837**
Financial expenses	7, 12	**4,082**	**3,140**
Net financial items	8	**(1,141)**	**(1,304)**
NET INCOME FOR THE YEAR	19	**47,754**	**95,647**

Accounts based on accounting act SDFI balance sheet at 31 December

All figures in NOK million	Notes	2020	2019
Intangible fixed assets	2	**57**	**61**
Tangible fixed assets	1, 2, 18, 21	**231,410**	**220,986**
Financial assets	2, 11	**1,289**	**1,464**
Fixed assets		**232,756**	**222,512**
Inventory	6	**1,698**	**2,353**
Trade debtors	9, 10	**21,922**	**25,858**
Bank deposits		**108**	**0**
Current assets		**23,728**	**28,211**
TOTAL ASSETS		**256,484**	**250,722**
Equity at 1 Jan.		**162,070**	**162,607**
Paid from/(to) the state during the year		**(58,711)**	**(96,184)**
Net profit		**47,754**	**95,647**
Equity adjustments		**0**	**0**
Equity	19	**151,113**	**162,070**
Long-term decommissioning liabilities	12, 18	**84,029**	**69,883**
Other long-term liabilities	13	**4,394**	**4,270**
Long-term liabilities		**88,423**	**74,153**
Trade creditors		**1,912**	**2,516**
Other current liabilities	9, 14, 15	**15,037**	**11,983**
Current liabilities		**16,948**	**14,499**
TOTAL EQUITY AND LIABILITIES		**256,484**	**250,722**

Stavanger, 4 March 2021

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Accounts based on accounting act
SDFI Cash flow statement

All figures in NOK million	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from operations	**3, 4**	**113,794**	155,106
Cash disbursements from operations	**5**	**(29,804)**	(32,266)
Change in working capital in the licences		**(380)**	1,153
Change over/under call in the licenses		**2,811**	(1,538)
Net interest payments		**0**	(1)
Cash flows from operating activities		**86,420**	**122,454**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investments	**2, 11**	**(27,601)**	(26,331)
Cash flow from investment activities		**(27,601)**	**(26,331)**
CASH FLOW FROM FINANCING ACTIVITIES			
Net transfer to the state		**(58,711)**	(96,184)
Cash flow from financing activities		**(58,711)**	**(96,184)**
Increase in bank deposits of partnerships with shared liability		**107**	(61)

Note information for accounts based on the Accounting Act

General

As of 31 December 2020, Petoro AS acted as licensee on behalf of the SDFI for interests in 194 production licences and 16 joint ventures for pipelines and terminals, including the company's management of commercial interests in Mongstad Terminal DA and Vestprosess DA, and the shares in Norpipe Oil AS. The SDFI is also entitled to potential profits in production licences with net profit agreements. Petoro has the same rights and obligations as other licensees, and manages the SDFI on the NCS on the basis of sound business principles.

Administration of the portfolio is subject to the Regulations on Financial Management in Central Government. Accounts for the portfolio are presented both on the cash basis used by the government and in accordance with the Norwegian Accounting Act. The company maintains separate accounts for all transactions relating to its participating interests, so that revenue and costs from production licences and joint ventures are kept separate from operation of the company. Cash flow from the portfolio is transferred to the central government's own accounts with Norges Bank. Petoro prepares separate annual accounts for the SDFI, with an overview of the participating interests managed by the company and associated resource accounting.

Accounting principles for the company accounts

The principal difference between the profit based on the Accounting Act and on a cash basis is that the latter includes cash payment for investments and operating expenses. Adjustments are also made for accruals of income and expenses on a cash basis, with a corresponding adjustment to debtors and creditors in the balance sheet. Realised currency loss/gain related to operating expenses and income is classified on the cash basis as operating expenses and income. The accounts based on the Accounting Act present realised currency loss/gain as financial expenses/income, and these items are accordingly not included in the operating profit. Differences between the accounts prepared in accordance with the Accounting Act (NGAAP) and on a cash basis are indicated in the notes below.

The SDFI's interests in partnerships with shared liability relating to the production of petroleum are included under the respective items in the income statement and recorded in the balance sheet based on relative ownership interest for the SDFI's share of income, expenses, assets and liabilities. The same applies to licence interests in oil and gas activities, including pipeline transport, which are not organised as companies.

SDFI's participation in Equinor's investments that fall under the marketing and sale instruction, are assessed as investments in associated companies or jointly controlled enterprises and are recorded pursuant to the equity method. The SDFI's share of the equity is recorded in the balance sheet under financial fixed assets and its share of the profit/loss is recorded as operating revenue in the income statement.

SDFI's ownership interests in limited companies are recorded in the balance sheet in accordance with the cost method and any dividend is recorded as a financial item. In addition, revenue from production licences with net profit agreements (concerns licences awarded in the second licensing round) is recorded as other income.

The functional currency is the Norwegian krone.

Revenue recognition principles

The SDFI records revenue from the production of oil, NGL and gas using the sales method. This means that sales are recorded in the period when the volumes are lifted and sold to the customer.

Revenue from ownership in transport and process facilities is recorded when the service is rendered.

Gas swap and borrowing agreements where settlement takes the form of returning volumes are, as a general rule, accrued using the sales method. At the same time, a provision is made for the associated production costs in the event that the SDFI has lent/swapped gas. When lending gas from the SDFI, the lower of production expense and estimated net present value of the future sales price is capitalised as a pre-paid expense at the date of the loan. Furthermore, the SDFI's share of location swaps related to the purchase or sale of third-party gas is recorded net as operating revenue. The SDFI's share of time swaps is recorded gross.

Liabilities arising because too much crude oil has been lifted in relation to the SDFI's share of the production partnership are valued at production cost, while receivables from the other partners in the production partnerships are valued at the lower of production cost and the estimated present value of the future sales price.

Purchases of third-party gas for resale and gas for inventory are recorded gross as operating expenses. The corresponding revenue is included in operating income.

Purchases and sales between fields and/or transport systems

Internal expenses and revenues are eliminated in purchases and sales between fields and/or transport systems in which the

SDFI is both owner and shipper, so that only costs paid to third parties appear as net transport costs.

Foreign currencies
Transactions in foreign currencies are recorded at the transaction rate. Monetary items in foreign currencies are valued at the exchange rate prevailing on the balance sheet date. Unrealised currency losses and realised currency losses/gains are recorded as financial income or financial expenses.

Classification of assets and liabilities
Assets intended for ownership or use over a longer period are classified as fixed assets. Other assets are classified as current assets. Debts due within one year are classified as current assets. Equivalent criteria are applied for classification of current and long-term liabilities.

Research and development
Research and development costs are expensed on a continuous basis. In addition to spending on direct research and development in each joint venture, the operator also charges expenses for general research and development to the partnership in accordance with the extent of exploration, development and operating expenses in the joint venture.

Exploration and development costs
Petoro employs the successful efforts method to record exploration costs for SDFI oil and gas operations. This means that costs related to geological and geophysical surveying are expensed. However, expenses linked to the drilling of exploration wells are recognised in the balance sheet in anticipation of evaluation. Such costs are expensed if the evaluation determines that the discovery is not commercially viable. Considerable time can elapse between the drilling of a well and a final development decision. Capitalised exploration well expenses are accordingly assessed quarterly to determine whether sufficient progress is being made in the projects so that the criteria for capitalisation continue to be met. Dry wells or those where progress is insufficient are expensed.

Expenses linked to development, including wells, platforms and equipment, are capitalised. Costs for operational preparations are expensed on a continuous basis.

Tangible fixed assets
Tangible fixed assets and investments are carried at acquisition cost with deduction for planned and contingent depreciation. Fixed assets under construction are carried at acquisition cost.

Fixed assets leased on terms which largely transfer the financial risk and control to the SDFI (financial leasing) are capitalised under tangible fixed assets and the associated lease obligation is recognised as an obligation under long-term interest-bearing debt at the net present value of the lease charges. The fixed asset is subject to planned depreciation, and the obligation is reduced by the lease payment after deduction of calculated interest costs.

The SDFI does not take up loans, and incurs no interest expenses associated with the financing of development projects.

Ordinary depreciation of oil and gas production facilities is calculated for each field and field-dedicated transport system using the unit of production method. This means that the acquisition cost is depreciated in line with the ratio between volume sold during the period and reserves at the start of the period. Investments in wells are depreciated in line with the reserves made available by the wells drilled.

Petoro determines the reserve base for depreciation purposes on the basis of estimated remaining reserves per field, which are adjusted by a factor calculated as the ratio between the Norwegian Petroleum Directorate’s total of low reserves in production and the sum of expected reserves in production. This is done for both oil and gas reserves. This reserve adjustment totalled 79 per cent of expected remaining oil reserves in 2020, while the corresponding figure for gas reserves was 81 per cent. The reserve estimates are revised annually, and any changes affect only future depreciation expenses.

Ordinary depreciation for onshore facilities and transport systems as well as riser platforms used by multiple fields, is calculated on a straight-line basis over the remaining licence period at 31 December.

Other tangible fixed assets are depreciated on a straight-line basis over their expected economic lifetime.

Intangible fixed assets
Intangible fixed assets are carried at their fair value at the time of acquisition. They are depreciated over the expected contract period or their expected economic lifetime, and any impairment charges are deducted.

Impairment
When the accounts are prepared, tangible fixed assets and intangible assets are reviewed for indications of a decline in value. Producing fields or installations are normally treated as separate entities for the purposes of assessing impairment. Should the recoverable value be lower than the book value, and this decline is not expected to be temporary, the asset is written down to its recoverable value, which is the higher of the asset’s fair value less sales costs and its utility value. The utility value is calculated using expected future cash flows, which are discounted using a discount rate based on the weighted average cost of capital (WACC) calculated for the company.

The impairment charge will be reversed if the conditions for writing down the asset no longer apply, limited to what the value would have been if no writedown was undertaken.

Maintenance expenses
Expenses related to repair and maintenance are expensed on a continuous basis. Expenses for major replacements and renovations that significantly extend the economic life of the tangible fixed assets are capitalised.

Abandonment and decommissioning expenses
Under the terms of a licence, the authorities can require the licensees to remove offshore installations when their production life comes to an end. The estimated fair value of obligations for decommissioning and removal is recorded in the accounts in the period when the liability arises, normally when wells are drilled and installations are built and ready for use. The obligation is capitalised as part of the acquisition cost of wells and installations, and depreciated therewith. Changes to estimated cessation and decommissioning costs are recorded and capitalised in the same manner and depreciated over the remaining economic life of the assets. The discount rate is based on the discount rate for corporate bonds (OMF) as stated in NRS6.

A change in the liability relating to its time value — the effect of the decommissioning date having come one year closer — is recorded as a financial expense.

Inventories
Inventories of spare parts and operating materials are valued at the lower of acquisition cost according to the FIFO principle, or net realisable value. Spare parts of insignificant value for use in connection with operating oil or gas fields are expensed at the time of acquisition. Spare parts of significant value are recorded as inventory at the time of acquisition and expensed when they are used in operations. Petoro uses the operators' assessments in monthly settlements (billings) as basis for which materials should be capitalised and which expensed.

Accounts receivable
Accounts receivable are recognised at face value in the balance sheet less a provision for expected loss. This provision is based on an individual assessment of each debtor.

Bank deposits
Bank deposits include cash, bank deposits and other monetary instruments with a maturity of less than three months at the date of purchase. Cash flows from oil and gas sales are transferred to the state on a daily basis. Booked bank deposits thus include the SDFI's share of bank deposits in companies with apportioned liability in which the SDFI has an interest, and in which the proportionate consolidation method is used.

Current liabilities
Current liabilities are recognised at face value.

Taxes
The SDFI is exempt from income tax in Norway. The SDFI is registered for value-added tax (VAT) in Norway. Virtually all the SDFI's sales of oil and gas products from its activity take place outside the geographic scope of Norway's VAT legislation (continental shelf and exports). The SDFI invoices these sales to the buyer free of tax. At the same time, the SDFI can deduct any VAT incurred on invoiced costs relevant to its activity.

Financial instruments
The SDFI is covered by the state's overall risk management. Financial instruments are used as part of Equinor's optimisation of gas sales.

Financial instruments are valued according to the lowest value principle, unless stated criteria have been met. Unrealised losses relating to financial instruments are recorded as expenses. Portfolio valuations are used as a basis where this, based on the financial instruments, is considered to be the most sensible approach, and where the portfolio is balanced in volume and time. Eliminations are carried out where legal rights exist to offset unrealised losses and gains, or where deposits/margins that correspond with the market value of the derivatives have been paid and capitalised. Gains are otherwise recognised upon realisation.

Financial instruments that are not current assets follow the valuation rules for fixed assets.

Contingent liabilities
Probable and quantifiable losses are expensed. Contingent assets are not included unless the asset is reasonably certain to be settled. Liabilities related to legal disputes are reflected when a judgement is pronounced and SDFI is on the losing side, regardless of whether the judgement is appealed and the dispute is still making its way through the legal system.

NOTE 1 Asset transfers and changes

In January 2020, the Ministry of Petroleum and Energy completed its Awards in Predefined Areas (APA 2019), where 14 production licenses were awarded with SDFI participation. Twenty production licences were relinquished in 2020. In January 2021, the Ministry of Petroleum and Energy completed its Awards in Pre-defined Areas (APA 2020), where an additional 10 production licenses were awarded with SDFI participation.

NOTE 2 Specification of fixed assets

All figures in NOK million	Book value at 31 Dec 19	Historical cost at 1 Jan 20	Accumulated depreciation 1 Jan 20	Addition 2020	Impair-ment 2020	Disposal 2020	Transfers 2020	Depre-ciation 2020	Book value at 31 Dec 20
Fields under development	22,163	22,163	0	5,900	(3,727)	(59)	0	0	24,278
Fields in operation	168,263	600,488	(432,225)	33,146	(2,009)	0	0	(21,999)	177,401
Pipelines and onshore facilities	26,165	72,440	(46,275)	1,480	0	(53)	0	(2,656)	24,936
Capitalised exploration expenses	4,395	4,395	0	911	0	(511)	0	0	4,795
Total tangible fixed assets	**220,986**	**699,486**	**(478,500)**	**41,437**	**(5,737)**	**(622)**	**0**	**(24,655)**	**231,410**
Intangible fixed assets	61	288	(227)	0	0	0	0	(4)	57
Financial assets	1,464	1,464	0	(175)	0	0	0	0	1,289
Total fixed assets (NGAAP)	**222,512**	**701,239**	**(478,727)**	**41,261**	**(5,737)**	**(622)**	**0**	**(24,659)**	**232,756**
Conversion to cash basis	(27,725)	(70,674)	42,949	(13,661)	0	622	0	2,220	(38,543)
Total fixed assets on cash basis	**194,787**	**630,565**	**(435,778)**	**27,601**	**(5,737)**	**0**	**0**	**(22,439)**	**194,213**

Impairment totalling NOK 5,737 million has been undertaken on fields under development and fields in operation as a result of changes in applied short-term and long-term price development, as well as updated production profiles and cost estimates. The Ekofisk, Martin Linge and Valemon fields have been impaired by NOK 1,583, 3,727 and 427 million, respectively.

Impairment tests are based on Petoro's best estimate of cash flows (market prices, production, costs and exchange rate assumptions). The real discount rate in the calculation of utility value is 7-8 per cent. Inflation is estimated at 2 per cent annually. When the utility value is assessed to be lower than the book value, the assets are written down to their utility value.

The price assumptions used to calculate impairment are generally as follows:

Real prices/year	2021	2022	2025	2030
Oil NOK/bbl	386	395	468	468
Gas price NOK/scm	1.75	1.76	1.93	1.93

The long-term oil price is on par with what the IEA presumes in its Sustainable Development Scenario, which is in line with the Paris Agreement. However, the risk for periods with both somewhat lower and higher prices is still significant, and volatility can be expected.

The long-term gas price reflects an increased likelihood of scenarios with lower demand, increased competition in supply and price pressure in the global gas market. The projected gas price is somewhat higher than the price development the IEA presumes in its Sustainable Development Scenario. However, the gas price expectation is considered to be consistent with achieving the objectives in the Paris Agreement.

Sensitivity analysis

The table below shows what the impairment or reversal of previous impairment would have been in 2020 under various alternative assumptions, presuming that all other assumptions remain constant. The fields affected are Ekofisk, Martin Linge and Valemon.

		Alternative calculations of impairment/reversal of impairment for 2020	
Assumptions	**Change**	**Increased assumptions**	**Reduced assumptions**
Gas and liquids prices	+/- 10%	2,734	(2,733)
Discount rate	+/- 1%	(602)	-

Tangible fixed assets for Snøhvit include a capitalised long-term financial charter for three ships used for LNG transport from the field. These vessels are being depreciated over 20 years, which is the duration of the charter.
Depreciation assessments calculate utility values by discounting future cash flows using a discount rate based on capital costs (WACC).

Intangible fixed assets include investments in further development of Etzel Gas Storage and a lesser amount in Åsgard Transport.

Financial assets totalling NOK 1,289 million include capacity rights for regasification of LNG at the Cove Point terminal in the US with an associated agreement regarding the sale of LNG from Snøhvit to Equinor Natural Gas LLC (ENG) in the US, as well as SDFI's share of Equinor's investment in Danske Commodities (DC). The SDFI participates in ENG under the marketing and sale instruction with regard to activities related to the marketing and sale of the state's LNG from Snøhvit. Cash flows from ENG are settled continuously on a monthly basis in connection with the purchase and sale of LNG. SDFI's share of DC are linked to gas activities under the marketing and sale instruction. These activities are assessed as investments in associated companies and recorded according to the equity method (see also Note 11).

NOTE 3 Specification of operating revenue by area

All figures in NOK million	**2020**	**2019**
License	**94,316**	134,186
Infrastructure and Market	**19,185**	23,736
Net profit agreements	**(228)**	193
Elimination internal sales	**(4,333)**	(4,720)
Total operating revenue (NGAAP)	**108,940**	**153,395**
Conversion to cash basis	**4,854**	1,711
Total cash basis	**113,794**	**155,106**

Infrastructure and Market generally consists of revenues from the resale of gas, tariff revenues for transport and processing, unrealised losses and revenues from trading inventory. Trading inventory mainly relates to physical volumes.

NOTE 4 Specification of operating revenue by product

All figures in NOK million	2020	2019
Crude oil, NGL and condensate	**47,613**	64,937
Gas	**47,460**	73,883
Transport and processing revenue	**12,170**	12,562
Other revenue	**1,926**	1,820
Net profit agreements	**(228)**	193
Total operating revenue (NGAAP)	**108,940**	**153,395**
Conversion to cash basis	**4,854**	1,711
Total cash basis	**113,794**	**155,106**

All oil, NGL and condensate from SDFI is sold to Equinor. All gas is sold by Equinor through the marketing and sale instructions issued to Equinor at SDFI's expense and risk. Virtually all gas is sold to customers in Europe under bilateral contracts, or over the "trading desk". About 38 per cent of annual gas volumes is purchased by the four largest customers.

NOTE 5 Specification of production and other operating expenses by area

All figures in NOK million	2020	2019
PRODUCTION EXPENSES		
License	**11,261**	10,265
Infrastructure and Market	**2,813**	3,426
Total production expenses	**14,074**	**13,690**
TRANSPORT AND PROCESSING EXPENSES		
License	**13,206**	14,224
Infrastructure and Market	**1,374**	182
Elimination internal purchases	**(4,333)**	(4,720)
Total transport and processing expenses	**10,247**	**9,686**
OTHER OPERATING EXPENSES		
Expenses for gas purchases, storage and administration	**3,962**	5,405
Total other operating expenses	**3,962**	**5,405**
Total operating costs	**28,282**	**28,780**
Conversion to cash basis	(219)	1,271
Total cash basis	**28,063**	**30,051**

Production expenses for License in 2019 include a reduced provision as a result of the NOK 1.3 billion settlement in the case associated with the Troll Unit.

A loss provision is recorded in 2020 under transport and processing expenses associated with a future transport capacity agreement totalling NOK 1.3 billion.

Over / underlift is included in the figure for Infrastructure and Market under production expenses. Gassled and other gas infrastructure is organisationally placed under Infrastructure and Market as regards reporting of production expenses and transport- and processing expenses.

NOTE 6 Inventories

All figures in NOK million	2020	2019
Petroleum products	**236**	920
Spare parts	**1,462**	1,432
Total inventories	**1,698**	**2,353**

Petroleum products comprise LNG and natural gas. The SDFI does not hold inventories of crude oil, as the difference between produced and sold volumes is included in over/underlift. Not relevant to the accounts on a cash basis.

NOTE 7 Interest included in the SDFI's appropriation accounts

Interest on the state's fixed capital is incorporated in the accounts on a cash basis. Interest amounts are calculated in accordance with the requirements in the 2020 letter of assignment to Petoro from the Ministry of Petroleum and Energy.

Interest on the state's fixed capital is charged to operations in order to take account of capital costs and to provide a more accurate picture of the use of resources. This is a calculated expense without cash effect.

The accounts on a cash basis include an open account with the state which represents the difference between the recorded amount in the chapter/item in the appropriation accounts and ingoing and outgoing payments in the settlement accounts in Norges Bank.

Interest on the open account with the state is calculated in accordance with the 2020 letter of assignment to Petoro from the Ministry of Petroleum and Energy. The interest rate applied is linked to the interest rate on short-term government securities and corresponds to the interest rate applied to short-term loans to the Treasury, calculated on the basis of the average monthly balance in the open account with the government.

Not relevant to the accounts based on the Accounting Act (NGAAP).

NOTE 8 Net financial items

All figures in NOK million	2020	2019
Interest income	1	406
Other financial revenue	1	1
Currency gain	2,940	1,429
Currency loss	(2,535)	(886)
Unrealised currency loss/gain	154	(635)
Interest expenses	(95)	(48)
Other financial expenses	0	115
Interest on decommissioning liability	(1,605)	(1,686)
Net financial items	**(1,141)**	**(1,304)**

Not relevant to the accounts on a cash basis.

NOTE 9 Related parties

The state, represented by the Ministry of Petroleum and Energy, owns 67 per cent of Equinor and 100 per cent of Gassco. These companies are classified as related parties of the SDFI. Petoro, as licensee for SDFI, has significant participating interests in pipelines and terminals operated by Gassco.

Equinor is the buyer of the state's oil, condensate and NGL. Sales of oil, condensate and NGL from the SDFI to Equinor totalled NOK 48 billion (corresponding to 135 million boe) for 2020, compared with NOK 65 billion (126 million boe) for 2019.

Equinor markets and sells the state's natural gas at the government's expense and risk, but in Equinor's name and along with its own production. The state receives the market value for these sales. The state sold dry gas directly to Equinor at a value of NOK 167 million in 2020, compared with NOK 270 million in 2019. Equinor is reimbursed by the state for its relative share of costs associated with the transport, storage and processing of dry gas, the purchase of dry gas for resale and administrative expenses relating to gas sales. These reimbursements amounted to NOK 13.2 billion in 2020, compared with NOK 12.6 billion in 2019. Open accounts with Equinor totalled NOK 5.2 billion in favour of the SDFI, converted at the exchange rate on the balance sheet date, compared with NOK 8.3 billion in 2019.

Pursuant to the marketing and sale instruction, the SDFI participates with a financial interest in Equinor Natural Gas LLC (ENG) in the US. Cash flows from ENG are settled continuously on a monthly basis in connection with the purchase and sale of LNG. The SDFI is also a participant in Equinor's investment in Danske Commodities (DC) under the marketing and sale instruction for the part assigned to gas activities. This participating interest entitles Petoro to a share of future results. The investments are addressed in more detail in Note 11.

Open accounts and transactions relating to activities in the production licences are not included in the above-mentioned amounts. Hence, no information has been included with regard to open accounts and transactions relating to licence activities with Equinor or Gassco. The SDFI participates as a partner in production licences on the NCS. These are accounted for in accordance with the proportionate consolidation method.

NOTE 10 Accounts receivable

Accounts receivable and other receivables are recorded at nominal value in NGAAP following deduction for foreseeable losses.

NOTE 11 Investments in associated companies

As of 1 January 2009, the SDFI's participation in Equinor Natural Gas LLC (ENG) in the US has been treated as an investment in an associate, which is recognised in accordance with the equity method. At the time it was established in 2003, the investment was recorded at the original acquisition cost of NOK 798 million.

The company's business office is located in Stamford in the US and it is formally owned 56.5 per cent by Equinor Norsk LNG AS, which reflects the SDFI's ownership interest under the marketing and sale instruction. The remaining 43.5 per cent is owned by Equinor North America Inc. As a result of the merger between former Statoil and Hydro's petroleum activities in 2007, the profit/loss is allocated in accordance with a skewed distribution model which gives 48.4 per cent to the SDFI.

The SDFI participates in ENG under the marketing and sale instruction with regard to activities related to the marketing and sale of the state's LNG from Snøhvit. Cash flows from ENG are settled continuously on a monthly basis in connection with the purchase and sale of LNG.

The SDFI recognised an investment associated with Equinor's acquisition of Danske Commodities (DC) under the marketing and sale instruction in 2019. DC is one of Europe's largest companies within short-term electricity trading. The company's activities also include short-term gas trading. The company is headquartered in Aarhus, Denmark. The company is formally owned by Equinor, but the SDFI participates in the investment through the marketing and sale instruction for the part of the enterprise related to gas activities. The acquisition agreement was finalised on 1 February 2019. The SDFI's participation in DC is assessed as an investment in an associated company and is recorded in accordance with the equity method. After the transaction date, the SDFI is entitled to a share of the result from gas activities that fall under the marketing and sale instruction. At the time of acquisition 2019, the investment was recorded at the original acquisition cost of NOK 1,190 million.

The table below includes the shareholdings in Norpipe Oil AS in addition to ENG and DC.

All figures in NOK million	**2020**	**2019**
Financial assets 1 Jan.	**1,464**	218
Share of profit for the year in associated company	**(202)**	56
2019 additions	**27**	1,190
Financial assets 31 Dec	**1,289**	**1,464**

NOTE 12 Shut-down/decommissioning

The liability comprises future abandonment and decommissioning of oil and gas installations. Norwegian authority requirements and the Oslo-Paris (OSPAR) Convention for the Protection of the Marine Environment of the North-East Atlantic provide the basis for determining the extent of the decommissioning liability.

The liability is calculated on the basis of estimates from the respective operators. A number of factors underlying the decommissioning estimate are associated with significant uncertainty, including assumptions for decommissioning and estimating methods, as well as technology and the removal date. The latter is expected largely to occur one or two years after cessation of production. See Note 24.

Interest expense on the liability is classified as a financial expense in the income statement. The discount rate is based on the discount rate for corporate bonds (OMF) as stated in NRS6.

The estimate for decommissioning costs has been raised by NOK 12.2 billion as a result of changes in future estimated costs from operators, alterations to cessation and decommissioning dates, as well as a change in the discount rate.

All figures in NOK million	**2020**	**2019**
Liability at 1 Jan	**69,883**	65,190
New liabilities	**146**	23
Actual decommissioning	**(310)**	(409)
Change estimate and discount rate	**12,696**	3,393
Interest expense	**1,605**	1,686
Liability at 31 Dec	**84,029**	**69,883**

NOK 310 million for cessation and decommissioning accrued in 2020, and is included in the accounts on a cash basis. The SDFI's share of estimated expenses for 2021 associated with shutdown and removal amount to NOK 605 million.

NOTE 13 Other long-term liabilities

Other long-term liabilities pursuant to NGAAP comprise:

- debt related to financial lease agreements for three LNG carriers delivered in 2006
- income not yet earned in anticipated repayment of profit shares in licenses with net profit agreements
- debt to Equinor in connection with acquisition of Danske Commodities

Three financial leasing contracts were entered into in 2006 on the delivery of three ships to transport LNG from Snøhvit. These contracts run for 20 years, with two options for five-year extensions. Future discounted minimum payment for financial leasing totals NOK 896 million as of 31 December 2020. Of this, NOK 211 million will be disbursed in 2021 and 685 million will be paid over the subsequent four years.

Repayment liabilities for previously paid-up profit shares in licences with net profit agreements linked to decommissioning is included in long-term liabilities and amounts to NOK 1,710 million.

Equinor finalised its acquisition of Danske Commodities in 2019. SDFI became a participant in the part of the acquisition associated with gas activities under the marketing and sale instruction. Outstanding debt associated with the investment for the SDFI share came to NOK 1,284 million at year-end.

Other long-term liabilities total NOK 715 million, of which NOK 80 million falls due within five years from the balance sheet date.

Not relevant to the accounts on a cash basis.

NOTE 14 Other current liabilities

Other current liabilities pursuant to NGAAP falling due in 2021 consist mainly of:

- provisions for accrued unpaid costs at December, adjusted for cash calls in December
- other provisions for accrued unpaid costs not included in the accounts received from operators

Licence operator credits have been moved from current liabilities to current assets in the report.

Not relevant to the accounts on a cash basis.

NOTE 15 Financial instruments and risk management

The marketing and sale instruction issued to Equinor utilises derived financial instruments (derivatives) to a certain extent to manage risk in the SDFI portfolio. This is primarily because the SDFI is owned by the Norwegian state and is accordingly included in the state's overall risk management. The SDFI does not have significant interest-bearing debt, and sells primarily oil, gas and NGL at current prices. Instruments used to manage price risk for sales at fixed prices or for deferred gas production relate to forwards and futures.

At 31 December 2020, the market value of the derivatives was NOK 2,557 million in assets and NOK 1,785 million in liabilities. The comparable figures at the end of 2019 were NOK 2,300 million in assets and NOK 2,252 million in liabilities. These figures include the market value of listed futures and unlisted instruments. The market value of built-in derivatives related to end-user customers in continental Europe. This amounted to NOK 187 million in assets and NOK 0 in liabilities in 2020. The comparable figures in 2019 were NOK 145 million and NOK 148 million, respectively. Net unrealised gains on outstanding positions at 31 December 2020 are not recognised as income under the Norwegian Accounting Act and generally accepted accounting principles (NGAAP).

Price risk

The SDFI is exposed to fluctuations in oil and gas prices in the global market. Equinor purchases all oil, NGL and condensate from the SDFI at market-based prices. The SDFI's revenue from gas sales is the price actually obtained. Based on the arrangement relating to the marketing and sale instruction along with the SDFI's participation in the government's overall risk management, limited use is made of financial instruments (derivatives). They are primarily employed to manage price risk for sales at fixed prices or for deferred gas production to counteract fluctuations in profit and loss owing to variations in commodity prices.

Currency risk

The majority of the company's revenue from the sale of oil and gas is invoiced in USD, EUR or GBP. Parts of its operating expenses and investments are also billed in equivalent currencies. When converting to NOK, currency fluctuations will affect the SDFI's income statement and balance sheet. The SDFI does not utilise currency hedging in relation to future sales of the SDFI's petroleum, and its exposure in the balance sheet at 31 December 2020 was largely related to one month's outstanding revenue.

Interest risk

The SDFI is primarily exposed to credit risk through financial leasing contracts. These are recognised in the SDFI accounts in accordance with the Norwegian Accounting Act and generally accepted accounting principles (NGAAP). Together with Equinor, it has a financial liability related to leasing contracts for LNG ships pursuant to the marketing and sale instruction. The SDFI has no other interest-bearing debt exposed to interest rate fluctuations.

Credit risk

The SDFI's sales are made to a limited number of parties, with all oil, NGL and condensate sold to Equinor. In accordance with the marketing and sale instruction, financial instruments for the SDFI's operations are purchased from other parties with sound credit ratings. Financial instruments are only established with large banks or financial institutions at levels of exposure approved in advance. The SDFI's credit risk in current transactions is accordingly regarded as limited.

Liquidity risk

The SDFI generates a significant positive cash flow from its operations. Internal guidelines on managing the flow of liquidity have been established.

NOTE 16 Leases/contractual liabilities

All figures in NOK million	Leases	Transport capacity and other liabilities
2021	3,897	1,442
2022	2,741	1,471
2023	1,592	1,344
2024	414	1,019
2025	206	796
Beyond	334	1,130

Leases represent operations-related contractual liabilities for the chartering/leasing of rigs, supply ships, production ships, helicopters, standby vessels, bases and so forth as specified by the individual operator. The figures represent cancellation costs.

Transport capacity and other liabilities relate to the sale of gas, and consist mainly of transport and storage liabilities in the UK and continental Europe as well as terminal capacity liabilities relating to the Cove Point terminal in the US. The SDFI's share of installations and pipelines on the NCS is generally higher than or equal to the transport share. Hence, no liabilities are calculated for these systems.

Other liabilities

In connection with the award of licences to explore for and produce petroleum, licensees may be required to commit to drill a certain number of wells. Licensees are also committed to undertake exploration activities through approved budgets and work programmes. The SDFI was committed at year-end to participate in 10 wells with an expected cost to the SDFI in 2021 of NOK 0.8 billion.

The SDFI has also accepted contractual liabilities relating to investments in new and existing fields. Overall, this amounts to NOK 7.7 billion for 2021 and NOK 12 billion for subsequent periods, totalling NOK 19.7 billion. Through approved budgets and work programmes, the SDFI was also committed to operating and investment expenses for 2021. The mentioned liabilities are included in budgets and work programmes for 2021.

In connection with the sale of the SDFI's oil and gas, Equinor has issued guarantees to suppliers and owners of transport infrastructure, as well as in connection with operations in the US, the UK and continental Europe. Guarantees issued in connection with trading activities are provided as security for lack of financial settlement. In total, the guarantees amount to NOK 700 million for the SDFI's share.

The SDFI and Equinor deliver gas to customers under joint gas sale agreements. SDFI gas reserves will be utilised in accordance with the SDFI's share of production from the fields selected to deliver the gas at any given time.

Not relevant to the accounts on a cash basis.

NOTE 17 Other liabilities

The SDFI could be affected by possible ongoing legal actions or unresolved disputes and claims as a participant in production licences, pipelines and onshore facilities, and in the joint sale of the SDFI's gas together with Equinor. The final scope of the SDFI's liabilities or assets associated with such disputes and claims cannot be reliably estimated at this time. The SDFI's financial standing is not expected to be significantly impacted by the outcome of such disputes. Provisions have been made in the accounts for issues where a negative outcome for the SDFI portfolio is thought to be more likely than not, or when a judgement has been pronounced and SDFI is on the losing side, regardless of whether the judgement is appealed and the dispute will advance through the legal system. A loss provision was recorded in 2020 associated with a future transport capacity agreement totalling NOK 1.3 billion.

Some long-term gas sales agreements contain price revision clauses that may lead to claims that become the subject of arbitration. The SDFI's exposure associated with ongoing price revision is not considered to have a significant effect on the SDFI's net income or financial position. Based on the SDFI's assessments, no substantial provisions have been made for price revision in the annual accounts for 2020.

Not relevant to the accounts on a cash basis.

NOTE 18 Significant estimates

The SDFI accounts are presented in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles (NGAAP), which means that the management makes assessments and exercises judgement in a number of areas. Changes in the underlying assumptions could have a significant effect on the accounts. Where the SDFI portfolio is concerned, it is presumed that assessments of the book value of tangible fixed assets, reserves, decommissioning of installations, exploration expenses and financial instruments could have the greatest significance.

Recoverable reserves include volumes of crude oil, NGL (including condensate) and dry gas as reported in resource classes 1-3 in the classification system used by the Norwegian Petroleum Directorate (NPD). Only reserves for which the licensees' PDO has been sanctioned in the management committee and submitted to the authorities are included in the portfolio's expected reserves. A share of the field's remaining reserves in production (resource class 1) provides the basis for depreciation. A share of oil and gas, respectively, is calculated annually for the portfolio to represent the relationship between low and expected reserves. This common share is used to calculate the depreciation basis for each field. The reduced expected reserves which make up the foundation for depreciation expenses are of great significance for the result, and adjustments to the reserve base can cause major changes to the SDFI's profit.

Drilling expenses are capitalised temporarily until an assessment has been made of whether oil or gas reserves have been found. Assessments of the extent to which these expenses should remain capitalised or be written down in the period will affect results for the period.

Substantial investments in tangible fixed assets have been made in the SDFI portfolio. Each time the accounts are prepared, these investments are reviewed for indications of a decline in value. The assessment of whether an asset must be written down is primarily based on judgements and assumptions about future market prices.

Reference is otherwise made to the description of the company's accounting principles and to Notes 12 and 15, which describe the company's treatment of exploration expenses, uncertainties related to decommissioning and financial instruments.

Not relevant to the accounts on a cash basis.

NOTE 19 Equity

All figures in NOK million	2020	2019
Equity at 1 Jan.	**162,070**	162,607
Net profit	**47,754**	95,647
Cash transfers to the government	**(58,711)**	(96,184)
Equity at 31 Dec	**151,113**	**162,070**

Not relevant to the accounts on a cash basis.

NOTE 20 Auditors

The SDFI is subject to the Appropriations Regulations, as well as the Regulations and Provisions on Financial Management in Central Government. In accordance with the Act relating to the Office of the Auditor General (OAG) of 7 May 2004, the OAG is the external auditor for the SDFI. The audit takes place during the period from 1 May 2020 – 30 April 2021, and the result of the audit will be reported in the form of an auditor's report by 1 May 2021.

PricewaterhouseCoopers AS (PwC) has also been engaged by Petoro's board of directors to perform a financial audit of the SDFI as part of the internal audit function. PwC submits its audit report to the board in accordance with international auditing standards. PwC's fee is charged to the accounts of Petoro AS.

NOTE 21 Expected remaining oil and gas reserves – unaudited

	2020		2019		2018	
Oil* in million bbls, gas in billion scm	**oil**	**gas**	**oil**	**gas**	**oil**	**gas**
Expected reserves at 1 Jan.	**1,533**	**604**	**1,572**	**632**	**1,615**	**678**
Corrections for earlier years	1	1	3	1	(9)	0
Change in estimates	0	(1)	37	7	(33)	(6)
Extensions and discoveries	62	0	0	0	127	0
Improved recovery	4	1	48	1	7	0
Production	(137)	(36)	(127)	(36)	(136)	(41)
Expected remaining reserves at 31 Dec.	**1,463**	**569**	**1,533**	**604**	**1,572**	**632**

* Oil includes NGL and condensate.

The portfolio's estimated remaining reserves totalled 5,045 million boe at the end of 2020, down by 290 million boe from the year before. Production in 2020 came to 362 million boe. The reserve growth of 72 million boe was primarily the result of the decision to develop Breidablikk. This yields a reserve replacement rate for 2020 of 20 per cent, compared with 40 per cent in 2019.

NOTE 22 Research and development

Petoro contributes to research and development (R&D) through the SDFI meeting its share of the operator's costs for general research and development pursuant to the Accounting Agreement. NOK 499 million was expensed by the SDFI for R&D in 2020 as regards charges from the operators during the accounting year.

NOTE 23 Events after the balance sheet date

There were no significant events after the balance sheet date.

NOTE 24 SDFI overview of interests

Production licence	At 31.12.2020 Participating interest (%)	At 31.12.2019 Participating interest (%)
018	5.00000	5.00000
018 B	5.00000	5.00000
028 C	30.00000	30.00000
034	40.00000	40.00000
036 BS	20.00000	20.00000
036 E	20.00000	20.00000
036 F	20.00000	-
037	30.00000	30.00000
037 B	30.00000	30.00000
037 E	30.00000	30.00000
038 C	30.00000	30.00000
038 D	30.00000	30.00000
040	30.00000	30.00000
043	30.00000	30.00000
043 BS	30.00000	30.00000
043 ES	-	30.00000
050	30.00000	30.00000
050 B	30.00000	30.00000
050 C	30.00000	30.00000
050 D	30.00000	30.00000
050 DS	30.00000	30.00000
050 ES	30.00000	30.00000
050 FS	30.00000	30.00000
050 GS	30.00000	30.00000
050 HS	30.00000	30.00000

Production licence	At 31.12.2020 Participating interest (%)	At 31.12.2019 Participating interest (%)
050 IS	30.00000	30.00000
052	37.00000	37.00000
053	33.60000	33.60000
053 C	33.60000	33.60000
054	40.80000	40.80000
055 C	33.60000	33.60000
057	30.00000	30.00000
062	19.95000	19.95000
064	30.00000	30.00000
074	19.95000	19.95000
074 B	19.95000	19.95000
077	30.00000	30.00000
078	30.00000	30.00000
079	33.60000	33.60000
085	62.91866	62.91866
085 B	62.91866	62.91866
085 C	56.00000	56.00000
089	30.00000	30.00000
093	47.88000	47.88000
093 B	47.88000	47.88000
093 C	47.88000	47.88000
093 D	47.88000	47.88000
093 F	47.88000	-
094	14.95000	14.95000
094 B	35.69000	35.69000
095	59.00000	59.00000
097	30.00000	30.00000
099	30.00000	30.00000
100	30.00000	30.00000
102	30.00000	30.00000
102 C	30.00000	30.00000
102 D	30.00000	30.00000
102 E	30.00000	30.00000
102 F	30.00000	30.00000
102 G	30.00000	30.00000
102 H	30.00000	30.00000
104	33.60000	33.60000
104 B	33.60000	33.60000

Production licence	At 31.12.2020 Participating interest (%)	At 31.12.2019 Participating interest (%)
107 B	7.50000	7.50000
107 D	7.50000	7.50000
110	30.00000	30.00000
110 B	30.00000	30.00000
120	16.93548	16.93548
120 B	16.93548	16.93548
120 CS	16.93548	16.93548
124	27.09000	27.09000
128	24.54546	24.54546
128 B	54.00000	54.00000
128 D	24.54546	24.54546
128 E	24.54546	24.54546
134	13.55000	13.55000
152	30.00000	30.00000
153	30.00000	30.00000
153 B	30.00000	30.00000
153 C	30.00000	30.00000
158	47.88000	47.88000
169	30.00000	30.00000
169 B1	37.50000	37.50000
169 B2	30.00000	30.00000
171 B	33.60000	33.60000
176	47.88000	47.88000
190	40.00000	40.00000
193	30.00000	30.00000
193 B	30.00000	30.00000
193 C	30.00000	30.00000
193 D	30.00000	30.00000
193 E	30.00000	30.00000
193 FS	30.00000	30.00000
193 GS	30.00000	30.00000
195	35.00000	35.00000
195 B	35.00000	35.00000
199	27.00000	27.00000
208	30.00000	30.00000
209	35.00000	35.00000
211	35.00000	35.00000
237	35.69000	35.69000

Production licence	At 31.12.2020 Participating interest (%)	At 31.12.2019 Participating interest (%)
248	40.00000	40.00000
248 B	40.00000	40.00000
248 C	40.00000	40.00000
248 D	40.00000	40.00000
248 E	40.00000	40.00000
248 F	40.00000	40.00000
248 GS	40.00000	40.00000
248 HS	40.00000	40.00000
248 I	40.00000	40.00000
248 J	40.00000	40.00000
250	45.00000	45.00000
255	30.00000	30.00000
255 B	30.00000	30.00000
255 C	30.00000	30.00000
255 D	30.00000	30.00000
263 C	19.95000	19.95000
265	30.00000	30.00000
275	5.00000	5.00000
277	30.00000	30.00000
277 C	30.00000	-
309 C	33.60000	33.60000
318	20.00000	20.00000
318 B	20.00000	20.00000
318 C	20.00000	20.00000
327	20.00000	20.00000
327 B	20.00000	20.00000
393	20.00000	20.00000
435	35.00000	35.00000
448	30.00000	30.00000
473	19.95000	19.95000
475 BS	30.00000	30.00000
475 CS	30.00000	30.00000
479	14.95000	14.95000
489	20.00000	20.00000
502	33.33333	33.33333
516	-	24.54545
532	20.00000	20.00000
537	20.00000	20.00000

Production licence	At 31.12.2020 Participating interest (%)	At 31.12.2019 Participating interest (%)
537 B	20.00000	20.00000
602	20.00000	20.00000
608	20.00000	20.00000
615	-	20.00000
615 B	-	20.00000
685	20.00000	20.00000
695	20.00000	20.00000
749	-	20.00000
762	-	20.00000
777	-	20.00000
777 B	-	20.00000
777 C	-	20.00000
777 D	-	20.00000
815	20.00000	20.00000
829	20.00000	20.00000
830	20.00000	20.00000
832	20.00000	20.00000
832 B	20.00000	20.00000
837	20.00000	20.00000
841	-	20.00000
844	-	20.00000
854	20.00000	20.00000
855	-	20.00000
857	-	20.00000
858	20.00000	20.00000
859	-	20.00000
860	20.00000	20.00000
864	-	20.00000
885	20.00000	20.00000
886	20.00000	20.00000
886 B	20.00000	20.00000
892	20.00000	20.00000
894	20.00000	20.00000
896	20.00000	20.00000
902	20.00000	20.00000
902 B	20.00000	20.00000
904	30.00000	30.00000
907	20.00000	20.00000

Production licence	At 31.12.2020 Participating interest (%)	At 31.12.2019 Participating interest (%)
916	-	20.00000
921	-	20.00000
923	20.00000	20.00000
934	20.00000	20.00000
935	20.00000	20.00000
949	-	20.00000
950	-	20.00000
954	20.00000	20.00000
958	20.00000	20.00000
959	20.00000	20.00000
959 B	20.00000	20.00000
960	20.00000	20.00000
961	20.00000	20.00000
964	25.00000	25.00000
968	20.00000	20.00000
970	20.00000	20.00000
973	20.00000	20.00000
973 B	20.00000	-
976	20.00000	20.00000
983	20.00000	20.00000
985	20.00000	20.00000
986	30.00000	30.00000
993	20.00000	20.00000
1025 S	20.00000	20.00000
1026	30.00000	30.00000
1028	20.00000	20.00000
1031	20.00000	20.00000
1044	20.00000	-
1046	30.00000	-
1049	20.00000	-
1051	20.00000	-
1056	20.00000	-
1071	20.00000	-
1078	20.00000	-
1079	20.00000	-
1080	20.00000	-
1083	30.00000	-

Net profit licences*		
027		
027 B		
027 C		
027 FS		
027 GS		
028		
028 B		
028 S		
029		
029 B		
029 C		
033		
033 B		

Unitised fields	At 31.12.2020 Participating interest (%)	At 31.12.2019 Participating interest (%)	Remaining production period	License period
Fram H-Nord Unit	11.20000	11.20000	2034	2024
Gimle Unit	24.18630	24.18630	2031	2023
Grane Unit	28.90500	28.90500	2044	2030
Gullfaks Unit	30.00000	30.00000	2034	2036
Haltenbanken Vest Unit (Kristin)	19.57700	19.57700	2034	2027
Heidrun Unit	57.79339	57.79339	2044	2024
Johan Sverdrup Unit	17.36000	17.36000	2058	2036
Martin Linge Unit	30.00000	30.00000	2032	2027
Norne Inside	54.00000	54.00000	2036	2026
Ormen Lange Unit	36.48500	36.48500	2044	2040
Oseberg Area Unit	33.60000	33.60000	2040	2031
Sindre Unit	27.09000	27.09000	2031	2023
Snorre Unit	30.00000	30.00000	2040	2040
Snøhvit Unit	30.00000	30.00000	2051	2035
Statfjord Øst Unit	30.00000	30.00000	2035	2026
Sygna Unit	30.00000	30.00000	2035	2026
Tor Unit	3.68744	3.68744	2049	2028
Troll Unit	56.00000	56.00000	2054	2030
Valemon Unit	30.00000	30.00000	2029	2031
Vega Unit	31.20000	30.00000	2035	2024
Visund Inside	30.00000	30.00000	2038	2034
Åsgard Unit	35.69000	35.69000	2032	2027

Field	At 31.12.2020 Participating interest (%)	At 31.12.2019 Participating interest (%)	Remaining production period	License period
Atla	30.00000	30.00000	2019	2025
Draugen	47.88000	47.88000	2035	2024
Dvalin	35.00000	35.00000	2032	2041
Ekofisk	5.00000	5.00000	2050	2028
Eldfisk	5.00000	5.00000	2049	2028
Embla	5.00000	5.00000	2028	2028
Gjøa	30.00000	30.00000	2027	2028
Heimdal	20.00000	20.00000	2022	2021
Johan Castberg	20.00000	20.00000	2053	2049
Kvitebjørn	30.00000	30.00000	2035	2031
Maria	30.00000	30.00000	2040	2036
Rev	30.00000	30.00000	2022	2023
Skirne	30.00000	30.00000	2021	2025
Skuld	24.54546	24.54546	2036	2026
Statfjord Nord	30.00000	30.00000	2035	2026
Svalin	30.00000	30.00000	2044	2030
Tordis	30.00000	30.00000	2030	2040
Tune	40.00000	40.00000	2032	2025
Urd	24.54546	24.54546	2036	2026
Veslefrikk	37.00000	37.00000	2022	2025
Vigdis	30.00000	30.00000	2040	2040

Fields no longer producing	At 31.12.2020 Participating interest (%)	At 31.12.2019 Participating interest (%)	License period
Jette Unit		-	-
Varg		-	-
Yttergryta		-	-

PIPELINES AND ONSHORE FACILITIES

Oil infrastructure	At 31.12.2019 Participating interest (%)	At 31.12.2018 Participating interest (%)	License period
Oseberg Transport System (OTS)	48.38379	48.38379	2031
Troll Oil Pipeline I + II	55.76808	55.76808	2023
Grane Oil Pipeline	42.06310	42.06310	2030
Kvitebjørn Oil Pipeline	30.00000	30.00000	2031
Norpipe Oil AS (interest)	5.00000	5.00000	2028
Mongstad Terminal DA	35.00000	35.00000	-
Johan Sverdrup Eiendom DA	17.36000	17.36000	-

Gas infrastructure			
Gassled**	46.69700	46.69700	2028
Haltenpipe	57.81250	57.81250	2024
Mongstad Gas Pipeline (EMV)	56.00000	56.00000	2030
Nyhamna	26.13840	26.13840	2041
Polarled	11.94600	11.94600	2041
Valemon Rich Gas Pipeline	30.00000	30.00000	2031
Dunkerque Terminal DA	30.35317	30.35317	2028
Zeepipe Terminal J.V.	22.88161	22.88161	2028
Vestprosess DA	41.00000	41.00000	-
Ormen Lange Eiendom DA	36.48500	36.48500	-

The SDFI also has intangible fixed assets relating to gas storage capacity in the UK and Germany, and financial fixed assets related to an associate in the US (ENG).

* Production licences where the SDFI is not a licensee, but is entitled to a share of possible profit
** Gassled has multiple transport licenses with various licence periods

Resource accounts 2020

The tables below present remaining reserves in resource classes 1 to 3, as well as resources in classes 4 to 8

		Remaining recoverable resources		
	Resource classes 1-8	**Oil, NGL and condensate** mill scm	**Gas** bn scm	**Oil equivalents** mill scm
RC 1-3	Reserves	232.6	569.5	802.1
RC 4	In the planning phase	38.0	54.5	92.5
RC 5	Recovery likely but not clarified	13.5	30.7	44.2
RC 6	Development unlikely	5.0	1.5	6.4
RC 7	Resources in new discoveries not evaluated and potential future IOR measures	48.1	53.5	101.6
RC 8	Prospects	20.4	15.3	35.7
	Total	**357.6**	**724.9**	**1082.6**

	Original reserves			Remaining reserves		
Field	**Oil and NGL*** mill scm	**Gas** mill scm o.e.	**Oil equivalent** mill scm o.e.	**Oil and NGL*** mill scm	**Gas** mill scm o.e.	**Oil equivalent** mill scm o.e.
Atla	0.12	0.42	0.54	0.00		0.00
Breidablikk	9.17	0.00	9.17	9.17	0.00	9.17
Draugen	74.66	0.80	75.47	3.91		3.91
Dvalin	0.30	6.28	6.58	0.30	6.28	6.58
Ekofisk group [1)]	38.20	11.89	50.09	5.34	2.09	7.43
Fram H-Nord	0.08	0.00	0.08	0.01	0.00	0.01
Gimle	0.79	0.22	1.02	0.00	0.00	0.00
Gjøa	10.04	12.04	22.09	1.25	2.27	3.52
Grane	43.58	0.00	43.58	6.56	0.00	6.56
Gullfaks group [2)]	143.69	35.36	179.05	8.44	7.82	16.26
Heidrun	117.10	26.77	143.88	19.98	13.25	33.22
Heimdal	1.34	9.25	10.58	0.00	0.00	0.00
Johan Castberg	17.78	0.00	17.78	17.78	0.00	17.78
Johan Sverdrup	72.61	1.74	74.35	67.58	1.57	69.15

Haltenbanken Vest	7.28	5.82	13.10	0.52	0.55	1.07
Kvitebjørn	15.75	30.57	46.32	2.27	5.93	8.20
Maria	3.06	0.17	3.23	2.26	0.12	2.37
Martin Linge	4.52	7.96	12.48	4.52	7.96	12.48
Norne	52.78	6.89	59.68	2.18	2.03	4.21
Norne Satellites [3]	3.61	0.16	3.76	0.66	0.00	0.66
Nøkken 34/11-2 S	0.02	0.05	0.07	0.02	0.05	0.07
Ormen Lange	6.97	110.05	117.02	1.27	25.53	26.80
Oseberg	176.51	48.68	225.19	10.75	24.89	35.64
Rev	0.28	0.81	1.09	0.01	0.01	0.02
Sindre Unit	0.01	0.01	0.02	0.01	0.01	0.02
Skirne	0.72	3.18	3.90	0.00		0.00
Snorre	95.91	1.99	97.90	25.63	0.00	25.63
Snøhvit	11.82	62.65	74.47	7.36	42.98	50.34
Statfjord Nord	13.70	0.69	14.39	1.40		1.40
Statfjord Øst	13.49	1.58	15.07	1.13	0.25	1.38
Svalin	2.91	0.00	2.91	0.88	0.00	0.88
Sygna	3.48	0.00	3.48	0.23	0.00	0.23
Tor	1.30	0.45	1.75	0.31	0.05	0.36
Tordis/Vigdis	44.61	1.96	46.57	4.74		4.74
Troll	186.26	802.19	988.44	14.41	402.56	416.97
Tune	1.48	7.52	9.00	0.00	0.07	0.07
Valemon	0.76	4.81	5.57	0.20	1.25	1.44
Vega	7.43	7.82	15.25	2.55	3.43	5.98
Veslefrikk	21.76	1.98	23.75	0.06	0.03	0.09
Visund [4]	18.24	19.69	37.93	4.22	9.57	13.80
Åsgard	71.63	79.05	150.68	4.70	8.93	13.63
Total	**1295.76**	**1311.53**	**2607.29**	**232.61**	**569.47**	**802.08**

1) Ekofisk group consists of Ekofisk, Eldfisk and Embla
2) Gullfaks group: Gullfaks and Gullfaks Sør
3) Norne satellites: Skuld and Urd
4) Visund group: Visund and Visund Sør

Vår referanse 2020/00588-5

Riksrevisjonen

STATENS DIREKTE ØKONOMISKE
ENGASJEMENT SDØE
Org. nr.: 980977269

Riksrevisjonens beretning

Til Statens direkte økonomiske engasjement

Uttalelse om revisjonen av årsregnskapet

Konklusjon
Riksrevisjonen har revidert Statens direkte økonomiske engasjements årsregnskap for 2020. Årsregnskapet består av ledelseskommentarer, oppstilling av bevilgningsrapportering med note A og B, oppstilling av artskontorapportering og oppstilling av virksomhetsregnskap med resultat, balanse og noter for regnskapsåret avsluttet per 31. desember 2020.

Bevilgnings- og artskontorapporteringen viser at 56.386.859.828 kroner er rapportert netto til bevilgningsregnskapet. Årsresultatet i virksomhetsregnskapet er 47.754 millioner kroner.

Etter Riksrevisjonens mening gir årsregnskapet til Statens direkte økonomiske engasjement et dekkende bilde av virksomhetens disponible bevilgninger, inntekter og utgifter for 2020 og kapitalposter pr 31. desember 2020, i samsvar med regelverket for økonomistyring i staten. Vi mener videre at virksomhetsregnskapet gir et dekkende bilde av virksomhetens resultat for 2020 og av eiendeler, gjeld og egenkapital per 31. desember 2020, i samsvar med norsk regnskapslov og god regnskapsskikk.

Grunnlag for konklusjonen
Vi har gjennomført revisjonen i samsvar med *lov om Riksrevisjonen, instruks om Riksrevisjonens virksomhet* og internasjonale standarder for offentlig finansiell revisjon (ISSAI 2000–2899). Våre oppgaver og plikter i henhold til disse standardene er beskrevet under «Revisors oppgaver og plikter ved revisjonen av årsregnskapet». Vi er uavhengige av virksomheten slik det kreves i lov og instruks om Riksrevisjonen og ISSAI 130 (INTOSAIs[1] etikkregler), og har overholdt våre øvrige etiske forpliktelser i samsvar med disse kravene. Etter vår oppfatning er revisjonsbevisene vi har innhentet tilstrekkelige og hensiktsmessige som grunnlag for vår konklusjon.

[1] International Organization of Supreme Audit Institutions

Øvrig informasjon i årsrapporten
Ledelsen er ansvarlig for årsrapporten, som består av årsregnskapet (del VI) og øvrig informasjon (del I–V). Riksrevisjonens uttalelse omfatter revisjon av årsregnskapet og virksomhetens etterlevelse av administrative regelverk for økonomistyring, ikke øvrig informasjon i årsrapporten (del I–V). Vi attesterer ikke den øvrige informasjonen.

I forbindelse med revisjonen av årsregnskapet er det vår oppgave å lese den øvrige informasjonen i årsrapporten. Formålet er å vurdere om det foreligger vesentlig inkonsistens mellom den øvrige informasjonen, årsregnskapet og kunnskapen vi har opparbeidet oss under revisjonen. Vi vurderer også om den øvrige informasjonen ser ut til å inneholde vesentlig feilinformasjon. Dersom vi konkluderer med at den øvrige informasjonen inneholder vesentlig feilinformasjon, er vi pålagt å rapportere dette i revisjonsberetningen.

Det er ingenting å rapportere i så måte.

Ledelsens, styrets og det overordnede departementets ansvar for årsregnskapet
Ledelsen og styret er ansvarlige for å utarbeide et årsregnskap som gir et dekkende bilde i samsvar med regelverket for økonomistyring i staten. Ledelsen og styret er også ansvarlige for å etablere den interne kontrollen som de mener er nødvendig for å kunne utarbeide et årsregnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

Det overordnede departementet og styret har det overordnede ansvaret for at virksomheten rapporterer relevant og pålitelig resultat- og regnskapsinformasjon og har forsvarlig internkontroll.

Riksrevisjonens oppgaver og plikter ved revisjonen av årsregnskapet
Målet med revisjonen er å oppnå betryggende sikkerhet for at årsregnskapet som helhet ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil, og å avgi en revisjonsberetning som gir uttrykk for Riksrevisjonens konklusjon. Betryggende sikkerhet er et høyt sikkerhetsnivå, men det er ingen garanti for at en revisjon som er utført i samsvar med *lov om Riksrevisjonen, instruks om Riksrevisjonens virksomhet* og internasjonale standarder for offentlig finansiell revisjon, alltid vil avdekke vesentlig feilinformasjon som eksisterer. Feilinformasjon kan oppstå som følge av misligheter eller utilsiktede feil. Feilinformasjon blir ansett som vesentlig dersom den, enkeltvis eller samlet, med rimelighet kan forventes å påvirke de beslutningene brukere treffer på grunnlag av årsregnskapet.

Vi utøver profesjonelt skjønn og utviser profesjonell skepsis gjennom hele revisjonen, i samsvar med *lov om Riksrevisjonen, instruks om Riksrevisjonens virksomhet* og internasjonale standarder for offentlig finansiell revisjon.

Vi identifiserer og anslår risikoene for vesentlig feilinformasjon i årsregnskapet, enten den skyldes misligheter eller utilsiktede feil. Videre utformer og gjennomfører vi revisjonshandlinger for å håndtere slike risikoer og innhenter tilstrekkelig og hensiktsmessig revisjonsbevis som grunnlag for vår konklusjon. Risikoen for at vesentlig feilinformasjon ikke blir avdekket, er høyere for feilinformasjon som skyldes misligheter, enn for feilinformasjon som skyldes utilsiktede feil. Grunnen til det er at misligheter kan innebære samarbeid, forfalskning, bevisste utelatelser, feilpresentasjoner eller overstyring av intern kontroll.

Vi gjør også følgende:
- opparbeider oss en forståelse av den interne kontrollen som er relevant for revisjonen, for å utforme revisjonshandlinger som er hensiktsmessige ut fra omstendighetene, men ikke for å gi uttrykk for en mening om hvor effektiv virksomhetens interne kontroll er
- evaluerer om regnskapsprinsippene som er brukt, er hensiktsmessige, og om tilhørende opplysninger som er utarbeidet av ledelsen, er rimelige
- evaluerer den totale presentasjonen, strukturen og innholdet i årsregnskapet, inkludert tilleggsopplysningene
- evaluerer om årsregnskapet representerer de underliggende transaksjonene og hendelsene på en måte som gir et dekkende bilde i samsvar med regelverket for økonomistyring i staten

Vi kommuniserer med ledelsen, blant annet om det planlagte omfanget av revisjonen og når revisjonsarbeidet skal utføres. Vi vil også ta opp forhold av betydning som er avdekket i løpet av revisjonen, for eksempel svakheter av betydning i den interne kontrollen, og informerer det overordnede departementet om dette.

Når det gjelder forholdene som vi tar opp med ledelsen, og informerer det overordnede departementet om, tar vi standpunkt til hvilke som er av størst betydning ved revisjonen av årsregnskapet, og avgjør om disse skal regnes som sentrale forhold ved revisjonen. De beskrives i så fall i et eget avsnitt i revisjonsberetningen, med mindre lov eller forskrift hindrer offentliggjøring. Forholdene omtales ikke i beretningen hvis Riksrevisjonen beslutter at det er rimelig å forvente at de negative konsekvensene av en slik offentliggjøring vil være større enn offentlighetens interesse av at saken blir omtalt. Dette vil bare være aktuelt i ytterst sjeldne tilfeller.

Dersom vi gjennom revisjonen av årsregnskapet får indikasjoner på vesentlige brudd på administrative regelverk med betydning for økonomistyring i staten, gjennomfører vi utvalgte revisjonshandlinger for å kunne uttale oss om hvorvidt det er vesentlige brudd på slike regelverk.

Uttalelse om øvrige forhold

Konklusjon om etterlevelse av administrative regelverk for økonomistyring
Vi uttaler oss om hvorvidt vi er kjent med forhold som tilsier at virksomheten har disponert bevilgningene på en måte som i vesentlig grad strider mot administrative regelverk med betydning for økonomistyring i staten. Uttalelsen gis med moderat sikkerhet og bygger på ISSAI 4000 for etterlevelsesrevisjon. Moderat sikkerhet for uttalelsen oppnår vi gjennom revisjon av årsregnskapet som beskrevet ovenfor, og kontrollhandlinger vi finner nødvendige.

Basert på revisjonen av årsregnskapet, er vi ikke kjent med forhold som tilsier at virksomheten har disponert bevilgningene i strid med administrative regelverk med betydning for økonomistyring i staten.

Oslo; 29.04.2021

Etter fullmakt

Tora Struve Jarlsby
ekspedisjonssjef

Bernt Nordmark
avdelingsdirektør

Beretningen er godkjent og ekspedert digitalt

Petoro AS income statement

All figures in NOK 1,000	NOTES	2020	2019
State contribution recognised as income	1	**288,000**	286,960
Other revenue	1,16	**2,187**	2,848
Change in deferred revenue recorded	2	**926**	2,677
Total operating revenue		**291,113**	**292,485**
Payroll expenses	3,11	**165,467**	162,275
Depreciation	4	**2,295**	3,397
Accounting fee	15	**15,472**	16,239
Office expenses	14	**10,737**	10,742
ICT costs	15	**29,107**	34,950
Other operating expenses	13	**65,239**	68,126
Total operating expenses		**288,316**	**295,728**
Operating profit		**2,797**	**(3,243)**
Financial revenue	5	**2,540**	4,541
Financial expenses	5	**(1,361)**	(324)
Net financial profit		**1,179**	**4,218**
NET INCOME FOR THE YEAR		**3,976**	**975**
TRANSFERS			
Transferred from (to) other equity		**3,976**	975
Total transfers		**3,976**	**975**

Petoro AS balance sheet at 31 December

All figures in NOK 1,000	NOTES	2020	2019
ASSETS			
Fixed assets			
Tangible fixed assets			
Operating equipment, fixtures, etc.	4	**2,757**	3,683
Total tangible fixed assets		**2,757**	**3,683**
Total fixed assets	6	**2,757**	**3,683**
Current assets			
Trade debtors		**0**	968
Other debtors	7	**20,013**	14,285
Bank deposits	8	**248,024**	231,638
Total current assets		**268,037**	246,891
TOTAL ASSETS		**270,793**	**250,575**
EQUITY AND LIABILITIES			
Equity			
Paid-in capital			
Share capital (10,000 shares at NOK 1,000)	9	**10,000**	10,000
Retained earnings			
Other equity	10	**17,949**	13,973
Total equity		**27,949**	**23,973**
Liabilities			
Provisions			
Pension liabilities	11	**185,386**	175,653
Deferred revenue government contribution	2	**2,757**	3,683
Total provisions		**188,143**	**179,336**
Current liabilities			
Trade creditors		**18,312**	15,930
Withheld taxes and social security		**11,157**	10,452
Other current liabilities	12	**25,232**	20,883
Total current liabilities		**54,701**	47,265
Total liabilities		**242,844**	226,602
TOTAL EQUITY AND LIABILITIES		**270,793**	**250,575**

Stavanger, 4 March 2021

Gunn Wærsted
Chair

Brian Bjordal
Deputy chair

Trude J. H. Fjeldstad
Director

Kristin Skofteland
Director

Hugo Sandal
Director

Ragnar Sandvik
Director,
elected by the employees

May Linda Glesnes
Director,
elected by the employees

Kjell Morisbak Lund
Acting CEO

Petoro AS - Cash flow statement

	All figures in NOK 1,000	2020	2019
	LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES		
	Net profit	**3,977**	975
+	Depreciation	**2,295**	3,397
+/-	Change in trade debtors	**968**	(962)
+/-	Change in trade creditors	**2,382**	(3,350)
+/-	Change in pension liabilities	**9,733**	8,908
+/-	Change in other accrued items	**(1,600)**	(6,595)
	Net change in liquidity from operating activities	**17,754**	**2,373**
	LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES		
-	Invested in tangible fixed assets	**1,369**	720
	Net change in liquidity from investing activities	**1,369**	**720**
	LIQUID ASSETS PROVIDED BY/USED IN FINANCING ACTIVITIES		
+	Equity paid	**0**	0
	Net change in liquidity from financing activities	**0**	**0**
	Net change in liquid assets through the year	**16,386**	1,652
+	Liquidity reserves at 1 Jan	**231,638**	229,986
	Liquidity reserves at 31 Dec.	**248,024**	**231,638**

Petoro AS - Note information

Accounting principles

Description of the company's business

Petoro AS was established by the Ministry of Petroleum and Energy on behalf of the Norwegian state on 9 May 2001. The company's objective is to be responsible, on behalf of the state, for managing the commercial aspects of the State's Direct Financial Interest (SDFI) in petroleum activities on the Norwegian Continental Shelf, and associated activities.

The state is the majority shareholder in Equinor ASA and the owner of the SDFI. On this basis, Equinor ASA handles marketing and sale of the state's petroleum pursuant to instructions. Petoro is responsible for monitoring that Equinor ASA discharges its responsibilities under the applicable marketing and sale instruction.

Petoro AS is also responsible for presenting separate annual accounts for the SDFI portfolio. The cash flow for the SDFI is accordingly excluded from the limited company's annual accounts.

Petoro AS was the parent company of Petoro Iceland AS until May 2020. The subsidiary was registered as a branch in Iceland, and acted as licensee in production licences where the Norwegian state chose to participate. The subsidiary was liquidated and deleted in May 2020, and Petoro AS is no longer registered as a group. The company's share capital of NOK 2 million was returned to the Ministry of Petroleum and Energy in 2020.

General

The annual accounts for Petoro AS were prepared in accordance with the provisions of the Accounting Act and Norwegian accounting standards for other enterprises.

Classification of assets and liabilities

Assets intended for ownership or use over a longer period are classified as fixed assets. Other assets are classified as current assets. Receivables due within one year are classified as current assets. Equivalent criteria are applied for classification of current and long-term liabilities.

Fixed assets

Fixed assets are carried at acquisition cost with a deduction for planned depreciation. Should the fair value of a fixed asset be lower than the book value, and this decline is not expected to be temporary, the fixed asset will be written down to its fair value. Fixed assets with a limited economic lifetime are depreciated on a straight-line basis over their economic lifetime.

Accounts receivable

Accounts receivable and other receivables are carried at face value.

Bank deposits

Bank deposits include cash, bank deposits and other monetary instruments with a maturity of less than three months at the date of purchase.

Pensions

Petoro AS has a defined contribution-based pension scheme pursuant to the Defined Contribution Pensions Act. Premiums for the defined contribution plan are expensed on a continuous basis.

The company has a transitional arrangement that is still defined benefit-based for employees who were less than 15 years from retirement age on 1 January 2016. The capitalised obligation relating to the scheme for employees who remain in the defined benefit scheme, is the present value of the defined obligation on the balance sheet date less the fair value of the plan assets, adjusted for unrecorded change in estimates. The pension obligation is calculated annually by an independent actuary on the basis of a linear earnings method and expected final pay. The pension plan is valued at its expected fair value. The net book liability includes payroll tax.

The period's pension expense is included in payroll expenses and comprises pension rights earned over the period, interest charges on the estimated pension obligation, expected return on pension plan assets, the recorded effect of estimate changes and accrued payroll tax from the benefit-based scheme, as well as premiums for the contribution-based scheme.

Changes made to estimates as a result of new information or changes in actuarial assumptions in excess of the larger of 10 per cent of the value of the pension plan assets or 10 per cent of the pension obligations are recorded in the income statement over a period which corresponds to the employees' expected average remaining period of employment.

Current liabilities

Current liabilities are assessed at their face value.

Income taxes

The company is exempt from tax pursuant to Section 2-30 of the Taxation Act

Operating revenue

The company receives appropriations from the government for services provided to the Ministry of Petroleum and Energy in accordance with the company's objective. This operating contribution is appropriated annually by the Storting (parliament). The operating contribution is presented in the accounts as operating revenue.

The contribution applied to investment for the year is accrued as deferred revenue and recognised as a liability in the balance sheet. The deferred contribution is recorded as income in line with the depreciation of the investments and specified as deferred revenue in the income statement.

Contributions for special projects are recorded as income in line with costs expended in the projects (matching principle).

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate on the transaction date. Receivables and liabilities in foreign currencies are recorded at the exchange rate on the balance sheet date.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. Cash and cash equivalents include cash in hand and at bank, as well as other current liquid assets.

NOTE 1 Government contribution and other revenue

NOK 288 million was appropriated for operation of Petoro AS, excluding VAT, in 2020. The amount is recorded as a contribution from the Norwegian government.

Other revenue primarily relates to services in connection with negotiation management in the SDFI portfolio.

NOTE 2 Deferred revenue

The change in deferred revenue recorded in the income statement comprises deferred revenue related to NOK 1.4 million in investments made during 2020, as well as NOK 2.3 million in depreciation of investments made during the year and in earlier years, cf. Note 4.

NOTE 3 Payroll expenses, number of employees, remuneration, etc.

Payroll expenses (all figures in NOK 1,000)	**2020**	**2019**
Payroll[1]	**111,788**	107,300
Directors' fees	**1,856**	1,906
Liability insurance for the board (applies to the entire board of directors)	**105**	105
Payroll tax	**15,706**	15,769
Pensions (Note 11)	**32,569**	33,574
Other benefits	**3,443**	3,621
Total	**165,467**	**162,275**

1) Includes a provision of NOK 4.6 million for one year's severance pay as well as salary and pension for the remaining notice period of 2 months in 2021 for Grethe K. Moen.

Employees at 31 December	64	65
Employees with a signed contract who had not started work at 31 Dec.	1	1
Average number of full-time equivalents employed	62.8	62.9

Remuneration of senior executives (All figures in NOK 1,000)	**Fixed salaries[1]**	**Cash allowance[2]**	**Other taxable benefits[3]**	**Taxable pay**	**Expensed pension[4]**
Grethe K. Moen[5]	3,565	208	174	3,948	1,996
Rest of the management team;					
Kjell Morisbak Lund[6]	3,010	137	150	3,297	217
Jonny Mæland	2,482	145	152	2,779	214
Ole Njærheim	2,517	147	150	2,814	219
Hilde Fey Lunde	1,821	99	148	2,069	224
Heidi Iren H Nes	1,267	54	148	1,469	218
Olav Boye Sivertsen[7]	1,801	120	123	2,044	149
Kjersti Bergsåker-Aspøy[8]	683	0	59	742	113
Rest of the management team	**13,582**	**702**	**930**	**15,214**	**1,355**

1. Fixed salaries consist of basic salary and holiday pay.
2. Cash allowance is performance-related pay. This disbursement is not included in pensionable income.
3. Other taxable remuneration includes car allowance, as well as minor remuneration for news subscriptions and telephone. Not included in holiday pay or pensionable income.
4. Expensed pension represents the current year's premium in the defined contribution scheme and the estimated costs of the defined benefit scheme for managers covered by this. Only Grethe K. Moen was included in the defined benefit scheme in 2020.
5. Grethe K. Moen left the position of CEO in August 2020. In addition to her disbursed annual salary in 2020 as shown in the table of remuneration of senior executives, a provision has been recognised in the accounts for 2020 for one year's severance pay in line with her employment contract regarding severance pay beyond the notice period, as well as salary and pension expenses owed for the remaining notice period of 2 months in 2021, totalling NOK 4.6 million.
6. Acting CEO as of 7 September 2020. Fixed salaries include remuneration for temporary appointment as acting CEO and cash allowance as compensation for loss of the defined benefit pension scheme calculated based on actuarial assumptions and pensionable income.
7. Remuneration through 30 September 2020.
8. Remuneration from 10 August 2020.

Declaration on senior executive pay for Petoro AS

The declaration on remuneration for the CEO and other senior executives is in line with the provisions of the Norwegian Public Limited Liability Companies Act and the guidelines for state ownership, including the Guidelines on pay and other remuneration for senior executives in wholly or partly state-owned enterprises and companies, which came into force on 13 February 2015.

Guidelines on remuneration

Petoro's remuneration guidelines are entrenched in the company's vision, goals and values. The relationship between the level of performance, demonstrated leadership/collegiality and reward shall be predictable, motivational, clear and easy to communicate. Petoro AS has a uniform pay policy and system for the whole company, and aims to pay a competitive rate without being a pacesetter on remuneration, with reference to moderation as regards total compensation in relation to the relevant market for the petroleum industry.

Decision-making process

The board has appointed a compensation sub-committee comprising the deputy chair and another director. The human resources manager provides the secretariat function for this committee, which prepares proposals and recommendations for the board on compensation issues. The board determines compensation for the CEO, who in turn determines the compensation for other members of the company's senior management within the approved framework.

Main principles for remuneration

Petoro's wage policy is to be competitive without being a pacesetter on overall remuneration, including the company's pension schemes. At the same time, consideration for moderation shall be taken into account.

Total compensation for the CEO and the other senior executives shall reflect the responsibilities and complexity of the role in question, the company's values and culture, the relevant executive's behaviour and performance, and the need to attract and retain key personnel. The arrangements are transparent and in accordance with the principles for good corporate governance.

Basic pay is the main component in Petoro's compensation scheme. Senior executives are also entitled to benefits on an equal footing with others in the company, including car allowance as well as pension and insurance benefits, and a system for communication allowance.

Pay levels in a reference group comprising relevant companies in the upstream petroleum industry provide the basic guidelines for the company's remuneration profile. Basic pay is primarily fixed on the basis of the responsibilities and complexity of the position. Basic pay is subject to an annual assessment.

Petoro AS has a performance-related salary scheme to promote achievement of the company's goals. The principle and framework for performance-related salary have been stipulated by the board and embedded in the "Guidelines on pay and other remuneration for senior executives in wholly or partly state-owned enterprises and companies". This scheme covers all employees, including the CEO, with an equal percentage of basic salary.

The board will stipulate performance-related salary in accordance with the assessed goal attainment within the framework of 10 per cent of basic salary. The goals included in the assessment of performance-related salary consist of select quantitative goals associated with operational and financial activities, as well as goals associated with the company's prioritised activities. The goals shall be based on objective, definable and measurable criteria that management can influence and are stipulated with a point of departure in the company's strategy and risk scenario, as well as guidelines laid out in letters of assignment from the Ministry of Petroleum and Energy.

In 2020, the following goals were included in the assessment of performance-related salary; Serious incidents (frequency), liquids production (kboed), project progress (milestones), as well as concrete goals and milestones associated with implementing the new organisation, improving drilling efficiency, digitalisation, monitoring the marketing and sale instruction issued to Equinor ASA and choosing a new accountancy provider for the SDFI. Performance-related salary for 2020 was addressed by the board following the approval of the annual accounts. The accounts for 2020 include provision of 2,5 per cent of performance-related salary for the year.

Share programmes, options and other option-like arrangements are not used by the company.

Petoro AS has a defined contribution-based pension scheme pursuant to the Defined Contribution Pensions Act. The company has no collective pension scheme for employees whose pay exceeds 12 G. This scheme was introduced on 1 Jan. 2016. Petoro AS has a transitional scheme that is still defined-benefit for pay above 12 G. This is the same for executives as for other employees less than 15 years from retirement age (67) at 1 Jan. 2016. Senior executives with employment contracts entered into before 13 February 2015 are covered by the same transitional scheme as other employees.

The CEO's retirement age was 67. The CEO's employment contract included a mutual six-month period of notice. An agreement had been entered into on a contractual termination payment of 12 months in addition to the period of notice. The CEO resigned from her position effective September 2020. A provision has been made in the accounts for 2020 for costs associated with the contractual termination payment.

Other senior executives are covered by the company's defined contribution scheme, which applies for salary under 12 G. Consequently, after these new guidelines came into force, Petoro AS will no longer have senior executives with a defined benefit pension and no pension expenses over and above those which follow from the defined contribution plan will accrue (pursuant to the Defined Contribution Pension Act). Petoro's internal retirement age is 70.

Remuneration principles and their implementation in the preceding year

The annual evaluation of the basic pay of the CEO and other senior executives was conducted with effect from 1 July. In 2020, the evaluation of other executives was carried out in the fourth quarter.

NOTE 4 Tangible fixed assets

All figures in NOK 1,000	Fixtures and fittings	Operating equipment	ICT	Total
Acquisition cost 1 Jan. 2020	4,979	9,004	40,331	54,314
Additions fixed assets	-	1,369	-	1,369
Disposal fixed assets/obsolescence	-	-	-	-
Acquisition cost 31 Dec. 2020	**4,979**	**10,373**	**40,331**	**55,683**
Accumulated depreciation 1 Jan. 2020	4,598	8,710	37,323	50,631
Reversed accumulated depreciation	-	-	-	-
Depreciation for the year	54	244	1,997	2,295
Accumulated depreciation 31 Dec. 2020	**4,652**	**8,954**	**39,320**	**52,926**
Book value at 31 Dec. 2020	**327**	**1,419**	**1,011**	**2,757**

Economic life	Lease term	3/5 years	3 years
Depreciation schedule	Straight line	Straight line	Straight line

Operational leasing contracts include office equipment and machines. The initial lease period is 3-5 years.

NOTE 5 Financial items

All figures in NOK 1,000	2020	2019
Financial income		
Interest income	2,395	4,383
Currency gain	145	159
Financial expenses		
Interest expenses	-	-
Currency loss	1,361	324
Net financial profit	**1,179**	**4,218**

NOTE 6 Investments in subsidiary

Company (All figures in NOK 1000)	**Acquisition date**	**Business office**	**Interest**	**Voting share**	**Equity at liquidation**
Petoro Iceland AS	11 Dec. 2012	Stavanger	100 %	100 %	4,244

Petoro AS received a contribution of NOK 2 million in 2012 which was earmarked as share capital for Petoro Iceland AS. This contribution was offset against the acquisition price of the shares. For that reason, investment in Petoro Iceland has been recorded as NOK 0 in the balance sheet. The company was liquidated in 2020 and contributions for share capital were returned to the Ministry of Petroleum and Energy in 2020.

NOTE 7 Other receivables

Other receivables consist in their entirety of pre-paid costs relating primarily to rent, insurance, licences, subscriptions for market information and VAT credits.

NOTE 8 Bank deposits

Bank deposits total NOK 248 million, including NOK 8 million in withheld tax and funds to cover unsecured pension obligations in the amount of NOK 197 million.

NOTE 9 Share capital and shareholder information

The company's share capital at 31 December 2020 comprised 10,000 shares with a nominal value of NOK 1,000 each. All shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian state, and all have the same rights.

NOTE 10 Equity

Petoro AS (All figures in NOK 1,000)	**Share capital**	**Other equity**	**Total**
Equity at 1 Jan. 2020	**10,000**	13,973	23,973
Net profit		3,976	3,976
Equity at 31 Dec. 2020	**10,000**	**17,949**	**27,949**

NOTE 11 Pension costs, assets and liabilities

The company is obliged to offer an occupational pension scheme under the Norwegian Act on Mandatory Occupational Pension Schemes. The company's pension plans comply with the requirements of this Act.

The company implemented a new pension plan with effect from 1 January 2016. This is a defined contribution plan pursuant to the Defined Contribution Pensions Act. The company has a transitional arrangement for employees who were less than 15 years from retirement age on 1 January 2016. Premiums for the defined contribution plan are expensed on a continuous basis.

Net pension cost (Figures in NOK 1,000)	**2020**	**2019**
Present value of benefits earned during the year	**14,216**	14,859
Interest expense on pension obligation	**7,844**	8,539
Return on pension plan assets	**(4,488)**	(4,568)
Recorded change in estimates	**5,909**	6,340
Payroll tax	**1,819**	1,910
Pension cost, defined benefit scheme	**25,300**	27,080
Pension cost, defined contribution plan incl. payroll tax	**7,269**	6,494
Net pension cost	**32,569**	**33,574**

Capitalised pension obligation	**2020**	**2,019**
Estimated pension obligation at 31 Dec.	**364,999**	347,514
Pension plan assets (market value)	**(128,106)**	(114,751)
Net pension obligations before payroll tax	**236,893**	232,763
Unrecorded change in estimates	**(51,507)**	(57,110)
Capitalised pension obligation	**185,386**	**175,653**

Calculation of the year's net pension cost is based on the assumptions of previous years. The net pension liability is calculated on the basis of assumptions in the present year. Petoro AS has allocated dedicated funds to cover unsecured pension liabilities, cf. Note 8.

The actuarial assumptions are based on common assumptions made in the insurance business for demographic factors.

	2020	**2019**
Discount rate	**1.70%**	2.30%
Expected return on plan assets	**2.70%**	3.80%
Expected increase in pay	**2.25%**	2.25%
Expected increase in pensions	**0.00%**	0.50%
Expected adjustment of the National Insurance Scheme's Basic Amount (G)	**2.00%**	2.00%

NOTE 12 Other current liabilities

Other current liabilities relate almost entirely to provisions for costs incurred, pay outstanding and holiday pay.

NOTE 13 Auditor's fees

The company's chosen auditor is KPMG AS. Fees charged for external auditing of the consolidated financial statements in 2020 totalled NOK 0.3 million. Consultancy services from KPMG totalling NOK 0.7 million have also been expensed in connection with training in a new digital collaboration solution.

In accordance with the Act relating to the Office of the Auditor General of 7 May 2004, the OAG is the external auditor for the SDFI. PricewaterhouseCoopers AS (PwC) has been engaged as the company's financial accountant in order to prepare a financial audit of the SDFI accounts as part of the company's internal auditing. PwC invoiced NOK 0.8 million for financial auditing and NOK 0.8 million for internal auditing in 2020. Costs have also been expensed for invoiced services from PwC within joint venture auditing totalling NOK 2.4 million.

NOTE 14 Leases

Petoro AS entered into a lease with Smedvig Eiendom AS for office premises in the autumn of 2003. Petoro AS chose to exercise the last option in the lease from 2021. The remaining lease term is now 5 years. Rent for the year totalled NOK 10.7 million, which included all operating and shared expenses.

NOTE 15 Significant contracts

Petoro AS has an agreement with Azets Insights AS (Azets) concerning the delivery of accounting services and associated ICT services linked to SDFI accounting. This agreement entered into force on 1 March 2020 and runs for five years with an option for Petoro AS to extend it for two years. Accounting fee carried to expense for Azets in 2020 for accountancy for the SDFI amounted to NOK 10.7 million.

Petoro AS has an agreement with TietoEVRY ASA for providing IT operations services for office support, administrative and technical petroleum solutions, as well as consultant assistance. This agreement entered into force on 1 January 2017 and runs for five years with an option for Petoro AS to extend it for 1+1 years. Costs under the IT operations agreement for 2020 amounted to NOK 9.5 million.

NOTE 16 Related parties

Equinor ASA and Petoro AS have the same owner, the Ministry of Petroleum and Energy, and are thus related parties. There were no significant transactions in 2020 between Equinor ASA and Petoro AS. Petoro AS acted as negotiation manager for certain fields associated with the SDFI portfolio where Equinor ASA is operator, cf. Note 1.

KPMG AS
Forusparken 2
Postboks 57
4064 Stavanger

Telephone +47 45 40 40 63
Fax
Internet www.kpmg.no
Enterprise 935 174 627 MVA

Til generalforsamlingen i Petoro AS

Uavhengig revisors beretning

Uttalelse om revisjonen av årsregnskapet

Konklusjon

Vi har revidert Petoro AS' årsregnskap som viser et overskudd på kr 3 976 430. Årsregnskapet består av balanse per 31. desember 2020, resultatregnskap og kontantstrømoppstilling for regnskapsåret avsluttet per denne datoen og noteopplysninger til årsregnskapet, herunder et sammendrag av viktige regnskapsprinsipper.

Etter vår mening er det medfølgende årsregnskapet avgitt i samsvar med lov og forskrifter og gir et rettvisende bilde av selskapets finansielle stilling per 31. desember 2020, og av dets resultater og kontantstrømmer for regnskapsåret avsluttet per denne datoen i samsvar med regnskapslovens regler og god regnskapsskikk i Norge.

Grunnlag for konklusjonen

Vi har gjennomført revisjonen i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder de internasjonale revisjonsstandardene International Standards on Auditing (ISA-ene). Våre oppgaver og plikter i henhold til disse standardene er beskrevet i Revisors oppgaver og plikter ved revisjon av årsregnskapet. Vi er uavhengige av selskapet slik det kreves i lov og forskrift, og har overholdt våre øvrige etiske forpliktelser i samsvar med disse kravene. Etter vår oppfatning er innhentet revisjonsbevis tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon.

Øvrig informasjon

Ledelsen er ansvarlig for øvrig informasjon. Øvrig informasjon omfatter informasjon i årsrapporten bortsett fra årsregnskapet og den tilhørende revisjonsberetningen.

Vår uttalelse om revisjonen av årsregnskapet dekker ikke øvrig informasjon, og vi attesterer ikke den øvrige informasjonen.

I forbindelse med revisjonen av årsregnskapet er det vår oppgave å lese øvrig informasjon med det formål å vurdere hvorvidt det foreligger vesentlig inkonsistens mellom øvrig informasjon og årsregnskapet, kunnskap vi har opparbeidet oss under revisjonen, eller hvorvidt den tilsynelatende inneholder vesentlig feilinformasjon.

Dersom vi konkluderer med at den øvrige informasjonen inneholder vesentlig feilinformasjon er vi pålagt å rapportere det. Vi har ingenting å rapportere i så henseende.

Styrets og daglig leders ansvar for årsregnskapet

Styret og daglig leder (ledelsen) er ansvarlig for å utarbeide årsregnskapet i samsvar med lov og forskrifter, herunder for at det gir et rettvisende bilde i samsvar med regnskapslovens regler og god regnskapsskikk i Norge. Ledelsen er også ansvarlig for slik internkontroll som den finner nødvendig for å kunne utarbeide et årsregnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

Ved utarbeidelsen av årsregnskapet må ledelsen ta standpunkt til selskapets evne til fortsatt drift og opplyse om forhold av betydning for fortsatt drift. Forutsetningen om fortsatt drift skal legges til grunn for årsregnskapet så lenge det ikke er sannsynlig at virksomheten vil bli avviklet.

Revisors oppgaver og plikter ved revisjonen av årsregnskapet

Vårt mål med revisjonen er å oppnå betryggende sikkerhet for at årsregnskapet som helhet ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil, og å avgi en revisjonsberetning som inneholder vår konklusjon. Betryggende sikkerhet er en høy grad av sikkerhet, men ingen garanti for at en revisjon utført i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder ISA-ene, alltid vil avdekke vesentlig feilinformasjon som eksisterer. Feilinformasjon kan oppstå som følge av misligheter eller utilsiktede feil. Feilinformasjon blir vurdert som vesentlig dersom den enkeltvis eller samlet med rimelighet kan forventes å påvirke økonomiske beslutninger som brukerne foretar basert på årsregnskapet.

Som del av en revisjon i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder ISA-ene, utøver vi profesjonelt skjønn og utviser profesjonell skepsis gjennom hele revisjonen. I tillegg:

- identifiserer og anslår vi risikoen for vesentlig feilinformasjon i regnskapet, enten det skyldes misligheter eller utilsiktede feil. Vi utformer og gjennomfører revisjonshandlinger for å håndtere slike risikoer, og innhenter revisjonsbevis som er tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon. Risikoen for at vesentlig feilinformasjon som følge av misligheter ikke blir avdekket, er høyere enn for feilinformasjon som skyldes utilsiktede feil, siden misligheter kan innebære samarbeid, forfalskning, bevisste utelatelser, uriktige fremstillinger eller overstyring av internkontroll.

- opparbeider vi oss en forståelse av den interne kontroll som er relevant for revisjonen, for å utforme revisjonshandlinger som er hensiktsmessige etter omstendighetene, men ikke for å gi uttrykk for en mening om effektiviteten av selskapets interne kontroll.

- evaluerer vi om de anvendte regnskapsprinsippene er hensiktsmessige og om regnskapsestimatene og tilhørende noteopplysninger utarbeidet av ledelsen er rimelige.

- konkluderer vi på hensiktsmessigheten av ledelsens bruk av fortsatt drift-forutsetningen ved avleggelsen av regnskapet, basert på innhentede revisjonsbevis, og hvorvidt det foreligger vesentlig usikkerhet knyttet til hendelser eller forhold som kan skape tvil av betydning om selskapets evne til fortsatt drift. Dersom vi konkluderer med at det eksisterer vesentlig usikkerhet, kreves det at vi i revisjonsberetningen henleder oppmerksomheten på tilleggsopplysningene i regnskapet, eller, dersom slike tilleggsopplysninger ikke er tilstrekkelige, at vi modifiserer vår konklusjon om årsregnskapet og årsberetningen. Våre konklusjoner er basert på revisjonsbevis innhentet inntil datoen for revisjonsberetningen. Etterfølgende hendelser eller forhold kan imidlertid medføre at selskapet ikke fortsetter driften.

- evaluerer vi den samlede presentasjonen, strukturen og innholdet, inkludert tilleggsopplysningene, og hvorvidt årsregnskapet representerer de underliggende transaksjonene og hendelsene på en måte som gir et rettvisende bilde.

Vi kommuniserer med styret blant annet om det planlagte omfanget av revisjonen og til hvilken tid revisjonsarbeidet skal utføres. Vi utveksler også informasjon om forhold av betydning som vi har avdekket i løpet av revisjonen, herunder om eventuelle svakheter av betydning i den interne kontrollen.

Uttalelse om andre lovmessige krav

Konklusjon om årsberetningen

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, mener vi at opplysningene i årsberetningen om årsregnskapet, forutsetningen om fortsatt drift og forslaget til resultatdisponering er konsistente med årsregnskapet og i samsvar med lov og forskrifter.

Konklusjon om registrering og dokumentasjon

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, og kontrollhandlinger vi har funnet nødvendig i henhold til internasjonal standard for attestasjonsoppdrag (ISAE) 3000 «Attestasjonsoppdrag som ikke er revisjon eller forenklet revisorkontroll av historisk finansiell informasjon», mener vi at ledelsen har oppfylt sin plikt til å sørge for ordentlig og oversiktlig registrering og dokumentasjon av selskapets regnskapsopplysninger i samsvar med lov og god bokføringsskikk i Norge.

Stavanger, 4. mars 2021
KPMG AS

Mads Hermansen
Statsautorisert revisor

Petoro's financial calendar 2021

9 March	Annual result 2020 / fourth quarter report 2020
5 May	First quarter report 2021
30 July	Second quarter report / first-half report 2021
28 October	Third quarter report 2021

Addresses

Petoro AS
Øvre Strandgate 124
P O Box 300 Sentrum
NO-4002 Stavanger
Phone: +47 51 50 20 00
E-mail: post@petoro.no
Website: www.petoro.no
Register of Business Enterprises: Org.nr. NO 983 382 355

Editorial team / production

Editorial team: Eirik Skjæveland og Christian Buch Hansen
English translation: TX:Translation
Production: Megabite
Photos: Anne Lise Norheim, Kjetil Alsvik, Elisabeth Tønnesen, Øyvind Gravås / Even Kleppa, Ole Jørgen Bratland, Equinor og Shutterstock